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COMMITTEE ON THE DISTRICT OF COLUMBIA.

HOUSE OF REPRESENTATIVES.

SIXTY-SEVENTH CONGRESS, FIRST SESSION.

BENJAMIN K. FOCHT, Pennsylvania (*Chairman.*)

LOREN E. WHEELER, Illinois.
STUART F. REED, West Virginia.
FREDERICK N. ZIHLMAN, Maryland.
FLORIAN LAMPERT, Wisconsin.
ANDERSON H. WALTERS, Pennsylvania.
OSCAR E. KELLER, Minnesota.
ROY O. WOODRUFF, Michigan.
ELLIOTT W. SPROUL, Illinois.
CHARLES L. UNDERHILL, Massachusetts.
WARREN I. LEE, New York.

ROY G. FITZGERALD, Ohio.
FRANK C. MILLSPAUGH, Missouri.
JOE BROWN, Tennessee.
JAMES P. WOODS, Virginia.
CHRISTOPHER D. SULLIVAN, New York.
THOMAS L. BLANTON, Texas.
RALPH GILBERT, Kentucky.
WILLIAM C. HAMMER, North Carolina.
CHARLES F. X. O'BRIEN, New Jersey.
STANLEY H. KUNZ, Illinois.

MISS M. B. LIDY, *Clerk.*

MARINE INSURANCE.

COMMITTEE ON THE DISTRICT OF COLUMBIA,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Friday May 6, 1921.

The committee met at 10 o'clock a. m., Hon. Benjamin Focht (chairman) presiding.

The CHAIRMAN. The committee will come to order. The object of this special meeting of the committee this morning is to have gentlemen who are represented by Mr. Edmonds address the committee on bill H. R. 175, which has reference to marine insurance; and in order that the committee may have better comprehension of the purpose of this legislation, being interested here in the District, Mr. Edmonds requested that he be given a hearing; and hence we called a special meeting of the committee for the purpose.

Therefore, Mr. Edmonds, if you will kindly make whatever introductory statement you may desire and proceed to introduce witnesses, the committee will be obliged to you.

I wish to say that at the last meeting of the committee it was decided that witnesses when they testify on matters involving questions of importance will be sworn. Hence, you will understand I am following the direction of the committee when I swear the witnesses when they take the stand. Mr. Edmonds, you may proceed.

STATEMENT OF HON. GEORGE W. EDMONDS, MEMBER OF CONGRESS FROM PENNSYLVANIA.

Mr. EDMONDS. In the first place I wish to say that this bill yesterday was indorsed by the Merchant Marine and Fisheries Committee. Their subcommittee has looked into the matter and has unanimously approved of this bill. For 15 months the representatives of the Shipping Board and a subcommittee of the Merchant Marine Committee and the Merchant Marine and Fisheries Committee itself have been looking into marine insurance, it being one of the vital factors in the carrying on of the merchant marine, and the necessity of having a facility of this kind confined as nearly as possible to this committee was apparent to everybody who investigated the matter.

We had as an expert for the committee and for the Shipping Board Prof. S. S. Huebner, of the University of Pennsylvania. The professor has made a study of this subject and all I could say in regard to it would be probably again spoken of by himself. So I am going to ask you first to hear Prof. Huebner and let Prof. Huebner explain to you why this bill was drawn, how it was drawn, and why it is necessary for the shipping business.

STATEMENT OF PROF. S. S. HUEBNER, EXPERT IN INSURANCE TO THE UNITED STATES SHIPPING BOARD AND THE COMMITTEE ON THE MERCHANT MARINE AND FISHERIES, PHILADELPHIA, PA.

The witness was duly sworn by the chairman.

The CHAIRMAN. Go ahead with your statement, Professor.

Mr. KUNZ. Pardon me just a moment, Mr. Chairman. What is your business and address?

Prof. HUEBNER. My address is Philadelphia, and I am connected with the University of Pennsylvania as a teacher, and in this marine insurance investigation have served as an expert to the United States Shipping Board and the Committee on Merchant Marine and Fisheries.

Mr. KUNZ. You have no interest in the insurance business at all?

Prof. HUEBNER. Absolutely no interest in it in any shape, form, or manner, except to see the business grow.

The CHAIRMAN. How do you happen to be here, by whose request?

Prof. HUEBNER. At the request of Mr. Edmonds.

The CHAIRMAN. The author of the bill; and he is acting in behalf of the interests?

Prof. HUEBNER. Mr. Edmonds asked me to be here and explain the reasons why this bill was framed and the main ideas in the bill.

Mr. Chairman and gentlemen of the committee, the sole purpose of the bill under consideration is the fostering of the development of an American marine insurance business. The purpose of the bill is to place American underwriters on a parity with their foreign competitors by removing legislative obstacles which now stand in the way of the progress of American underwriters and which their foreign competitors are not obliged to contend with. There is nothing radical or visionary about this bill. It simply aims at the adoption of practices and principles which have been used by our leading competing nations for many, many years, with eminent success, and with great benefit to their own companies and incalculable harm to our own.

The bill proposes to modernize our legislation as it relates to marine insurance and thus give our companies a chance. The sole purpose of the bill is to bring about conditions of fair play in our own country for our own people.

As Congressman Edmonds has stated, this bill is the outgrowth of a comprehensive investigation which was conducted for a period of some 15 months or more, jointly by the United States Shipping Board and the Committee on the Merchant Marine. As a result of that investigation three things were shown, I think, beyond denial: The first is that marine insurance is an absolute necessity to the maintenance of a merchant marine and the securing of our foreign trade opportunities; secondly, that marine insurance as we had it a short time ago was of very limited proportions; and, thirdly, that unless we change existing conditions by legislation it seems impossible to have any progress in the further development of the business.

I will now take up each one of the three points I have mentioned:

Marine insurance differs from most other forms of insurance in that its service extends far beyond the protection of property and credit. Marine insurance is also much more than a source of large

national revenue. We should not forget that marine insurance is a national commercial weapon. Our competitors have used it as an important branch of commerce, employed jointly with the shipping business and the banking business, to further their foreign commercial interests.

Our competitors have used marine insurance as a means of preempting leading lines of trade; and nations that possess important marine insurance facilities are in a position, when occasion requires, to deny those facilities to the citizens of other countries which do not possess independent marine insurance facilities, or if they do grant them, grant them under conditions which are not favorable.

And then it should not be forgotten that an independent marine insurance institution is highly desirable as a means of safeguarding our commercial information. Information is probably nine points in success in foreign commerce, and we ought therefore to always bear in mind the fact that when an American insures his cargo with a foreign underwriter he makes available to that underwriter necessarily a lot of very valuable information—the underwriter becomes acquainted with the consignee and the route of travel, the methods of doing business and the financial terms of the trade transaction. One of the very first things our President did at the commencement of the Great War was to close down on the German insurance and reinsurance companies in this country. Beyond question they had the means of obtaining an immense amount of very valuable commercial information. It does seem strange, therefore, that we should have given up so willingly this very important branch of commerce; that we should have opened up our books of business record so willingly, and that for so many years we should so ungrudgingly have allowed tens of millions of dollars to flow to our foreign competitors.

Despite the importance of marine insurance, our investigation showed that the volume of business transacted by our own companies was of a very limited character. A few statistics, I think, will make that clear. The records are for the year 1918, because the investigation was conducted in 1919 and those were the latest records available. But 1918 is a good, fair year for purposes of comparison. Two-thirds of all the marine insurance originating in the United States during 1918, cargo and hull insurance combined, was either sent abroad to nonadmitted companies, or was written by foreign companies admitted to this country. In other words, two-thirds of all American marine insurance was under foreign control. If we limit our view to hull insurance, the figures would indicate that about 75 per cent of the hull business originating in the United States was under foreign control.

One-half of the reinsurance placed by American companies was placed with foreign underwriters, and many of the companies advised the committee that the large proportion of reinsurance which they placed with foreign companies was allotted not through choice but necessity. Our reinsurance facilities were so limited that nothing else could be done. Furthermore, while our marine insurance companies were large in number, some 86 in all, only 62 wrote marine insurance directly, and of those 62 companies, only a few of the larger ones did nearly all the business. Five of the companies, for instance, transacted four-tenths of the total American marine

insurance written by all American companies, and 10 companies transacted two-thirds of the total. I mention these figures to show that the great mass of the companies were comparatively unimportant.

Mr. KUNZ. Where did you get these figures?

Prof. HUEBNER. These figures were obtained through questionnaires. An elaborate questionnaire was prepared and submitted to all companies transacting marine insurance in the United States, American as well as foreign admitted companies. The returns were all filed under oath, and that information was supplemented with all the information that could be obtained from State insurance records.

All the data, by the way, to which I have been referring has been published in two reports, one labeled "The status of marine insurance in the United States" and issued under date of February 26, 1920, and a later report on "Legislative obstructions to the development of marine insurance in the United States," published under date of December 11, 1920.

The CHAIRMAN. May I ask you, before you proceed further, how it happened that you have this legislation introduced in respect of the District of Columbia, where they have no companies whatever that might take insurance of this kind, and it is purely a State matter under the charters of the States, and, furhtermore, the total amount of insurance that has been paid on premiums abroad, and whether there are now in this country companies capable of carrying this enormous liability?

Prof. HUEBNER. The content of what I intend to say, Mr. Chairman, will cover your question, although it will probably take five minutes to give the answer.

In view of the situation as I have explained it—that is, the very limited amount of marine insurance facilities in the country and the desirability of having an independent marine insurance business—the committee and the Shipping Board devoted much time to the remedy. Now, the remedy could be along one or two lines: We could have Government insurance or we could have private insurance.

After very careful thought, the unanimous conclusion was that it would be most desirable to have the Government get out of the insurance business as soon as possible and to encourage private initiative. It was felt that that was the only way in which to have a lasting marine insurance institution to serve this country.

Mr. KUNZ. By whom were these conclusions arrived at?

Prof. HUEBNER. By the entire personnel of the subcommittee of the Committee on Merchant Marine and Fisheries, which had charge of this investigation. They issued a committee report outlining what I am just now stating, and they decided in favor of private marine insurance rather than Government marine insurance.

Having decided in favor of private insurance, the next problem arose as to how to bring that about. Time was the essence of success. Our opportunity is right now. If we miss this opportunity, we may probably never have another, or probably not for half a century. Hence it was decided to do as much as could possibly be done at once, and then pave the way for more gradual progress through proper legislation.

Therefore, at the instigation of the Subcommittee on the Merchant Marine and Fisheries, and with the approval of the Shipping Board,

the marine underwriters of the country were induced to cooperate, get together, and form syndicates. Three such syndicates were formed, and are known as syndicates A, B, and C.

Syndicate A is purely a service syndicate; that is, it does not do any underwriting. It tends to the making of maintenance inspections and loss surveys. It helps syndicates B and C by rendering services. It operates on a cost plan, and its purpose is to do for the United States what the London Salvage Association is doing for England.

Syndicate B is an underwriting syndicate, consisting entirely of American companies. Some 50 companies, if I recall the number, have joined in this syndicate. It insures the Government's equity on vessels sold by the Shipping Board; that is to say, the unpaid portion of the purchase price. It guarantees an underwriting capacity of $2,000,000 on a single steamer.

Syndicate C is also an underwriting syndicate, which insures American steamships owned by private interests, and has an underwriting capacity of two and a half millions on a hull. Two-thirds of the underwriting capacity of syndicate C belongs to American companies that are members, and a one-third interest belongs to foreign admitted companies, provided they choose that much.

These syndicates are now organized and are functioning. But the creation of these syndicates, it should not be forgotten, is just a preliminary step. We might say it is only half of the problem. These syndicates must now be allowed to grow and thrive, and that is the other half of the problem. So, in answer to your question, Mr. Chairman, we were faced by certain difficulties, legislative obstacles that stood in the way of the successful operation of these syndicates.

Mr. KELLER. What is the difference in the amount of insurance of the two different syndicates?

Prof. HUEBNER. Syndicate C is a broader syndicate, greater membership, and therefore the underwriting capacity can be larger.

Mr. KUNZ. Might I ask you who are the foreign admitted companies, if you know?

Prof. HUEBNER. By far the majority of the foreign admitted companies belong to the syndicate. There are English companies and companies from other countries that belong to that syndicate.

Mr. KUNZ. Is Lloyds one of them?

Prof. HUEBNER. Lloyds is not a company; Lloyds is not a member of the syndicate.

The CHAIRMAN. What is Lloyds anyhow?

Prof. HUEBNER. Lloyds is an organization of underwriters where the individual subscribers to a policy assume a certain personal liability on a risk. Fifty, or even a hundred, individual underwriters at Lloyds may undertake a risk, but each individual signs up for the risk and only for a certain stated amount indicated after his name.

The CHAIRMAN. Do they have capital?

Prof. HUEBNER. A member of Lloyds is obliged to make a deposit at the time he becomes a member. I do not know just what the deposit is at present. Before the outbreak of the war it was $25,000; it may have been enlarged since.

Mr. MILLSPAUGH. You stated that the facilities for marine insurance that the foreign governments possessed would give them access to knowledge of our Government plans in case of trouble with this

country. What would prohibit the foreign admitted companies from having access to that information if they were permitted to join in this proposition?

Prof. HUEBNER. The idea of this bill is not to bar foreign companies at all. The idea of the bill is to enable the American business of marine insurance to grow to such an extent and to write insurance on terms sufficiently favorable to enable American merchants and ship owners to place their insurance with our own underwriters if they so choose rather than be obliged to put so much of it on the other side.

Mr. MILLSPAUGH. I gather that, but what is to prohibit the foreign countries from gaining information which you seek to stop them from getting through the provisions of this bill?

Prof. HUEBNER. If American merchants and shipowners adopt foreign policies, then foreigners naturally will have means of getting information.

Mr. MILLSPAUGH. So that that feature of the bill would be practically operative as soon as you admit the foreign admitted companies to the syndicate?

Prof. HUEBNER. As far as syndicate C is concerned, yes. But not as regards syndicate B, nor as regards syndicate A. Those two syndicates are composed of American companies solely. But there is this difference, that the proportion, the allotment of business between American companies and foreign companies in the syndicate is two-thirds for American companies and one-third for the foreign admitted companies, whereas our figures indicated during the investigation that two-thirds of all American marine insurance was under foreign control.

Mr. FITZGERALD. Prof. Huebner, I do not understand what the obstacles are which are to be removed.

Prof. HUEBNER. I am coming to that right now.

Mr. FITZGERALD. Thank you.

Mr. HUEBNER. The legislation which we seek to eliminate is State legislation. Owing to the decisions of the United States Supreme Court, the supervisory control of insurance rests entirely with the States. The result of such decentralized control has been the development of a great mass of legislation which has purely a local viewpoint. It is provincial legislation. Forty-eight separate architects have built up that legislation, and a careful analysis of the laws indicates that the structure which has been erected in the different States was designed primarily to hold up as heavy a weight of taxation as possible. The national viewpoint, the importance of marine insurance as an instrumentality in developing commerce, has received little consideration in the individual States. Marine insurance has been regarded as a mere incident, was lumped together with fire insurance, and was subjected to legislation which was intended primarily for fire insurance, although the difference between those two kinds of insurance is very great.

The question is, how to make a change? The conclusion of the committee that had charge of the investigation was that the only way of accomplishing a change is to do by indirection what the law forbids us to do directly. This is a national measure, and consequently Congress should give a national expression. There is every reason to believe that if Congress adopts this bill the individual States will take to it very much more kindly than if Congress does not

adopt a bill of this sort. As a matter of fact, several States have already, if I am informed correctly, adopted certain portions of the bill even before Congress has adopted it.

While this bill, on its face, is an insurance measure, it is in reality much more than an insurance measure; it is a national commerce measure. While on its face the bill is limited to the District of Columbia, in reality it is intended to do much more than that. We hope that it will serve as a model bill for adoption in part or in whole by other States. We do not insist at all on the adoption of taxation figures or any other figures as now found in the bill. We emphasize principles and methods, and each State, of course, is free to apply its own rate of taxation.

Now, if I may, I will turn to the provisions of the bill itself, unless there are other questions.

The CHAIRMAN. Are there any other questions in regard to the general features of the bill?

Mr. FITZGERALD. Let me ask this, Professor: As it stands now, suppose one State passes proper laws, could not any company that wanted to do marine-insurance business find it possible to incorporate under the laws of that State and do business there without any interference?

Prof. HUEBNER. Certainly, a certain amount of that could possibly be carried on under favorable conditions, but as the situation is to-day a company might organize in a State which has adopted a good law, and yet be forbidden to do business in some other State, say, New York, which has adopted a policy to the effect that no company can do business within its boundaries unless it complies with the New York law.

Mr. FITZGERALD. It would only be necessary to reach the main ports?

Prof. HUEBNER. What is necessary is to get the main States of the country to change their law applying to marine insurance.

Mr. FITZGERALD. The seaboard States?

Prof. HUEBNER. Yes, the seaboard States, to adopt the provisions of this bill. But it would be, of course, desirable to have all States adopt the provisions of this bill.

Mr. FITZGERALD. If the District of Columbia adopts this bill it would not do any good, because there are not any marine-insurance corporations here?

Prof. HUEBNER. There are certain sections in this bill that pertain directly to the District of Columbia, and would benefit the District under this bill.

Mr. FITZGERALD. You mean under the commerce clause of the Constitution?

Prof. HUEBNER. No; the sections of the bill that benefit the District particularly are those which permit the establishment of purely reinsurance companies in the District, or that permit of the organization of a company in the District which does solely a foreign insurance business.

Mr. FITZGERALD. That is, if we had a company organized in the District which could reinsure in a very liberal way it would encourage these other companies to go ahead and do business?

Prof. HUEBNER. I am inclined to think so.

Mr. FITZGERALD. And you believe it would act as a powerful stimulus at the present time until the other States adopted the other provisions of the bill?

Prof. HUEBNER. That section of the bill is favorable to the organization of companies in the District of Columbia, but the real purpose of this bill is to serve as a model. It has been discussed as a model bill in all the journals and was thus discussed before the United States Chamber of Commerce last week.

Mr. FITZGERALD. I was just trying to find out whether or not it was going to have any practical force outside of that. Suppose no other State does follow it?

Prof. HUEBNER. If other States do not follow it, the objects of this bill will be very severely limited.

Mr. FITZGERALD. Limited to the reinsurance proposition?

Prof. HUEBNER. It is an expression of Congress on a national measure, and we hope it will serve as an inducement to local governments throughout the country to follow the example.

Mr. EDMONDS. It is unnecessary for a company to be along the coast to do marine insurance. A company could be anywhere in the country and do a marine insurance business.

Mr. FITZGERALD. Suppose it were incorporated in my State of Ohio. We have one marine insurance company that I know of. In order for that company to write insurance in the State of New York they have to submit to the New York law, and possibly put up bonds in the State treasury of New York and go through a lot of red tape.

Mr. EDMONDS. In order to do a fire insurance and whether it does a marine insurance only it probably has to satisfy the insurance commissioners that it is in proper shape to do business in accordance with the laws of the State of New York, which is the great obstruction we found in all this legislation. We found that insurance was a service; it is not an article of commerce, and the Supreme Court decisions uphold that. If we could have said that insurance was an article of commerce, then we could have brought it under the commerce clause of the Constitution and legislated here for it. But we can not do that, because it is a service.

If you will allow Prof. Huebner to explain the bill by sections, you will get answers to all those propositions as to what would be beneficial to the District of Columbia, I think.

Prof. HUEBNER. Although this bill is detailed in order to apply the principles in a practical way, there are really only five fundamental thoughts in the bill, five fundamental changes that we want to bring about and to induce the various States to accept. These five fundamental changes are the following:

In the first place, this bill changes the existing system of taxing gross premiums to a system of taxing the profits of a company. In my opinion that is by far the most important section of the bill, changing the system of taxation from that on premiums to one on profits. The several States of the Union, with very few exceptions, tax the gross premiums of an insurance company and ignore the profits of the company altogether, whereas our leading competitors have adopted the system of profits taxation. Without exception, the underwriters of this country have been very insistent that we should place them on a parity with their foreign competitors.

To understand the significance of this section, I think it would be well to present a few statistics showing the weight of taxation on marine insurance companies as it exists in this country. These figures have been carefully compiled for the year 1918, and the following staggering burden is revealed: Seventy-one American companies transacting marine insurance paid total taxes to the various States and the Federal Government amounting to over 6 per cent of their net premium income, that is, before there is any deduction for losses or for expenses. For a single year taxes and fees for these companies amounted to nearly 23 per cent of their total capital stock. For every dollar of dividends declared or received by stockholders during that year the tax gatherer took more than one dollar. If we compile the taxes for the 20 leading marine insurance companies of the United States, companies that do a business in practically all the States, and are thus obliged to meet the multiplicity of taxes and fees that prevail in these different States, the showing is even much more startling. Those 20 companies paid taxes and fees for the year 1918 amounting to nearly 8 per cent of their net premium income, and to nearly 40 per cent of their combined capital stock, and for every dollar of dividends received by the stockholders of those 20 companies the tax gatherer took nearly two dollars. As regards 18 companies, one-fourth of the total number of American companies transacting a marine insurance business in 1918, the taxes and fees paid by those companies amounted to one and one-third times the incomes of those companies, underwriting profit and investment gain combined, after the payment of taxes.

There are examples of companies that paid heavy taxes, although they showed a net loss for the year, considering both their insurance business and their income on investments. It may be questioned whether there is any great strategic business that is so unmercifully taxed as the business that we have under consideration to-day. Such taxation is intolerable. Our leading competitor, England, does not do anything of that sort; in fact, such taxation is foolish in its results, because it kills the goose that lays the egg.

In England taxation is on profits, and although England is in need of greater revenue than we are, the taxation is considerably less. But American companies do not object to the payment of taxes; they insist that taxes should be paid on profits. If they do make money they are willing to pay taxes, but if they do not make money they do not see why they should be taxed on a basis which completely ignores the success of the business. The mere collection of a premium does not mean a profit. A premium may actually result in a loss. The difference between the American system and the English system is simply the difference between wrong and right. Our system is essentially wrong, and there is no scientific argument that in my opinion can be advanced in favor of the premium system of taxation, unless it be ease of collecting the largest possible amount of revenue But there is no inherent justice in the system.

So this bill proposes to change the system, and the new method of taxation is as follows:

The total national underwriting profit of a marine insurance company is determined, and then the idea is to permit the District of Columbia, or any State where this might be adopted, to impose a profits tax on that proportion of the company's total national profit

which the net premium income, collected in the District or in the State under consideration, bears to the total net premium income received by the company. Each State, however, is free to impose its own rate of taxation; one State may impose a rate of 3 per cent, another State a rate of 5 per cent, and so on.

Unless there are questions on the taxation provision, I will turn to the next fundamental change that the bill seeks to bring about.

Mr. WOODS. Do you think the States will forego the privilege of high taxation?

Prof. HUEBNER. That question will naturally come up. It is my firm conviction that by treating this business fairly and by enabling it to grow, the various taxing jurisdictions can obtain just as much and more revenue at a smaller rate of taxation than they can to-day from a high rate applied to the limited amount of business that is written to-day.

Mr. WOODS. You theory is that it will create a larger amount of business?

Prof. HUEBNER. I think it will create a larger amount of business, since the rate of taxation has been prohibitive. Now, we want to broaden the basis of taxation, make the business grow, and I think just as much and more revenue will be obtained from a small rate.

The second main thought of the bill is the encouragement of syndicate arrangements. I have already explained the creation of the American marine insurance syndicates and the object in so doing. When these syndicates were formed, a considerable number of underwriters were rather fearful that participation in such syndicates might get them into trouble on account of antitrust laws. We attended to that matter, so far as the Federal Government is concerned, through section 29 of the Jones Merchant Marine Act. Section 29 of that act expressly states that marine insurance syndicates shall be free from the operation of any Federal antitrust laws.

Mr. FITZGERALD. Just a moment at that point. Is it then made obligatory upon these syndicates to form new companies?

Prof. HUEBNER. The syndicates have agreed to take in all companies on a fair basis.

Mr. FITZGERALD. Is it obligatory under the law?

Prof. HUEBNER. No; it would be absolutely impossible to compel the syndicates to take in any company, irrespective of the personnel or the amount of capital and surplus.

Mr. FITZGERALD. I know; but the law could provide for that; and does not this tend to monopoly?

Prof. HUEBNER. No; there can never be a monopoly in marine insurance. Foreign competition will absolutely prevent the American syndicates from charging rates too high.

Mr. FITZGERALD. There is nothing to prevent anybody else coming into the business?

Prof. HUEBNER. Anybody could enter the business, but it would be impossible in my opinion to require a group of men to include within their number any one, irrespective——

Mr. FITZGERALD (interposing). I do not mean "irrespective," but compel them to admit other companies at any time, if they conformed to certain requirements as to capital, security, etc.?

Prof. HUEBNER. I can conceive of how it might be arranged that if a company has a proper personnel and adequate capital and surplus

requirements, that it should be taken in. My understanding is that that is what is being done, although there has been no obligatory provision to that effect.

Mr. EDMONDS. You know, and I know, that nine out of ten syndicates would welcome any company. In other words, they want to extend the line; they do not think they have large enough lines, and they want to extend their lines much farther. They would like to have it running up to $3,000,000 to $4,000,000 on a hull.

Mr. FITZGERALD. The thought naturally occurs in forming a syndicate they are not going to let anybody else in on a good thing, and are you not creating a monopoly?

Mr. EDMONDS. That would mean after all States accepted these provisions, because this is only for the District of Columbia. The situation is such to-day that I know the syndicates would welcome any companies that want to go into marine insurance that have proper capital and surplus. It would enlarge their line, because certain companies only want to take a certain amount of risk, say, only $5,000, another would, say, $10,000, and another $15,000. All these other companies want to be formed, and if they are formed the syndicate would be glad to welcome them. They may get to a point where they do not want any further companies, but I doubt very much whether that would be true for some years to come.

Prof. HUEBNER. I think the officials or managers of the syndicate who are here would tell you that they have searched far and wide for the inclusion of every possible company that was available.

Mr. FITZGERALD. I was only looking toward the future.

Prof. HUEBNER. As I remarked, section 29 of the Jones Merchant Marine Act has legalized these syndicates, but that act only pertains to the Federal antitrust laws and does not cover the State situtation.

Twenty-four of our States have local antitrust laws which pertain to insurance, and a considerable number of insurance commissioners have advised us that a company organized in their State would not be permitted to join one of these syndicates, and vice versa; that an unauthorized company outside of their State would not be permitted to belong to a syndicate, if the syndicate transacted business within its boundaries. In other words, these local antitrust laws may in the future and probably do to-day to a considerable extent interfere with the widest possible accretion of membership to the syndicates.

Therefore, this bill proposes two things: One to permit communities of interest; in other words, to permit the same wide cooperation that our foreign competitors have been favored with for many years, and, secondly, it provides for the abolition of local antitrust laws in so far, at least, as they interfere with the workings of marine insurance syndicates. Thirdly, a section of this bill relates to the enlargement of reinsurance facilities. One of the greatest handicaps of American marine insurance companies has been the lack of such facilities. Nineteen States at present permit risks written within their jurisdictions, to be reinsured with admitted companies only; that is, a company can not place a risk it writes within the State with any company outside of the State if such company is not admitted to do business within the State. Twenty-five States permit risks written within their jurisdictions to be reinsured with nonadmitted companies, but in nearly all instances subject to severe

restrictions, such as refusal of credit to the ceding company for reduction of taxes or of reserve or other liabilities.

This bill proposes to permit a marine insurance company writing business within the District, for example, to reinsure with any other company in the United States, so long as the standards of solvency of that company are equivalent to the standard prescribed by this act; in other words, it makes reinsurance national in scope instead of limiting it in the way I have suggested for 19 States, on the one hand, to 25 States on the other.

This bill also provides for multiple line insurance. By that I mean that a marine insurance company shall be given the privilege of transacting any other kind of insurance, other than life insurance and fidelity and surety bonding. We have made exceptions of those two kinds of insurance. But other forms of insurance may be written by marine insurance companies.

In America companies are limited in the kinds of insurance they may write. Fire companies and marine companies are limited, usually, to those two kinds of insurance and may not write other kinds.

In Europe, for many decades, insurance companies have been allowed to write all kinds of insurance. There they do not even make an excetion of life insurance and fidelity and corporate bonding. We want to place American companies on a parity with their foreign competitors. The principle, I think, is bound to come anyway—would naturally come in the course of 10 years or so. Hence, at this strategic time, it seems to me it would be wise to take the step at once. The States of Oregon and Wisconsin have already adopted multiple line laws to the fullest extent, even including life insurance and fidelity and surety bonding, although we see no particular reason why marine insurance companies should write those two kinds.

The law is reciprocal, that is to say, while marine insurance companies are given the right to write these other kinds of insurance, with the two exceptions I have mentioned, at the same time other companies are permitted to write marine insurance if they want to. The thing is not one sided. The marine companies want the privilege of doing other kinds of insurance, and are willing to permit other types of companies to write their kind of insurance.

The benefits flowing from the multiple line principle are the following: Referring to British companies which have this privilege, they have materially reduced their overhead charges. The practice has enabled the companies to secure the support of business concerns by meeting their full insurance requirements.

For instance, it must stand to reason that if one company can furnish four, five or six types of protection under one contract or in one office, that the client is subjected to much less trouble and is much more apt to insure with a company that can do that for him than if he must see some four or five or more companies and get from each one a particular kind of insurance.

Mr. FITZGERALD. Everybody with an automobile realizes that.

Prof. HUEBNER. It is particularly so in automobile insurance. We have had a great many parties tell us in foreign markets, particularly in South America, that an American company can simply

appeal to a client on the ground of selling one kind of insurance—marine insurance. An English company will go to him and say, "Let us handle all your insurance. We will take everything you need," and naturally our company loses out in competition of that sort.

Furthermore, the multiple line principle enhances the financial standing of companies, since various forms of insurance complement one another, in that bad results in one branch are counterbalanced by good results in some other branch. One form of insurance may show a loss for a given year; another form of insurance may show a profit. The financial condition of the company as a whole is stabilized and a better application of the law of averages is obtained by spreading the business of the company over many kinds of insurance.

Mr. FITZGERALD. For instance, if somebody steals your automobile, they have a cinch against the fire premium and the other premiums, have they not?

Prof. HUEBNER. I do not know just what the practice is in that connection as to automobile insurance. There are gentlemen here in the room who write automobile insurance and who can tell you precisely.

I want to say that this bill does not encourage loose insurance principles at all. The receipts which a company receives for each kind of insurance it may write are kept entirely separate for the year, and profits may not be declared, or additions may not be made to surplus, until the end of the year, and then only out of profits actually made.

The multiple line section of this bill follows very closely the English law. In fact, it is a copy of the English law, and simply aims to put our American underwriters on a parity with their foreign competitors.

This bill also aims, and this is the fifth main idea, to facilitate the operations of American companies in foreign fields by removing certain limitations on the financial powers of the companies which exist to-day. It is highly desirable that American companies should, as far as possible, open branches in foreign countries. Through the use of foreign markets companies will share in the premiun income of many trades and thus obtain the benefits of a fairly constant and diversified premium income. Furthermore, loss in one market during any particular period is apt to be counterbalanced by profit in some other market. English merchants, for example, are afforded everywhere the convenience of adequate underwriting facilities near at hand so that they may feel free to extend their activities because of the certainty of a continuance insurance market. Moreover, facilities exist for the prompt adjustment of losses at distant points. The companies also enhance their competitive power, since loss in one foreign market is likely to be counterbalanced by profit in some other market, whereas the American companies have thus far been obliged to rely upon a single market and that one largely under foreign domination.

British insurance companies have been compared by some writer to a centipede; that is, they have their feet in a great many markets, and any adverse influence in one of the markets—that is, cutting off one of the feet—does not very seriously impede the running powers of the animal. On the other hand, our own companies thus far have

been standing on one foot—that is, they have this one market to depend upon. Therefore it has even been possible for foreign underwriters to keep their rates up in many of the foreign markets in which they operate, and thus place them in a position where they can concentrate on this market and cut rates. In that way they can cut the bottom from under our own American companies, whose activities are limited to this one market.

The bill proposes to do two things by way of encouragement in extending branch offices in foreign countries. One is this: If an American company is obliged to make a deposit in a foreign country, the laws of many States are to the effect that that deposit may not be regarded as an asset in the company's home financial statement. This bill provides that that part of the deposit which is not required to meet the local reserve liability shall be considered an admitted asset in the company's financial statement at home. The laws of many of our States are so framed that a company seeking entry into numerous foreign markets becomes weaker financially in proportion to the number of countries it seeks to extend into.

Next, we extend liberality to sums that are sent in by agents operating in foreign countries. In other words, any amounts due, any remittances more than 90 days overdue, from a foreign country are not admitted as assets in the financial statement of the company. We have extended that period very considerably in the bill.

I think, Mr. Chairman, I have covered the main points of this bill—I forgot one, which pertains to taxation, and that has reference to business exported directly to a foreign nonadmitted underwriter by a licensed broker. On such business a tax of 2½ per cent is imposed on premiums. A nonadmitted foreign underwriter is one who has not established a branch office in this country and who pays no State taxes anywhere. It was felt that since a great deal of our marine insurance is exported to foreign markets to underwriters of that type, and since no taxes are paid to any State, a tax of 2½ per cent on the premiums should be imposed.

The CHAIRMAN. May I ask you whether you feel it would not, with that radical departure from the usual method of taxation of corporations in the States, say, like Pennsylvania, where the taxation is on capitalization in part, requiring a bonus to be deposited when you register as a foreign corporation, and to have offices there where service may be had? This method of taxing the net profits strikes me as something that is a departure from the usual method.

Prof. HUEBNER. It is a departure certainly, but we feel that that departure is necessary.

The CHAIRMAN. The people have been of an inquiring mind, I might suggest, from a layman's viewpoint. For instance, you take the Gould system of railroads, which has been operating for years and years without paying dividends, yet the owners are spending untold millions in all sorts of family extravagances. Where does the money come from? The stockholders have been waiting to get money out of the Gould system which traverses many great States. May not that apply to insurance companies, in the way of large salaries, sir?

Prof. HUEBNER. In addition to the tax on net profits, this bill provides for two other sources of income. I did not take the time to go over that, because I assumed that it would be understood that taxes would be imposed.

Another tax is imposed on the investment income of the insurance company; in other words, in 1918, 57 per cent of the total income of the 71 American companies transacting marine insurance came from interest and dividends on their investments, and not from the insurance business. Now, the income from their stock and bond holdings is taxed under another provision of the act. The net profits system of taxation proposed in this bill relates only to the taxation of the insurance business as such.

Then we also provide in this bill for the imposition of a fee. Each State will have a right to inpose a fee, which is graduated in size according to the total assets of the company.

The CHAIRMAN. I suppose you would have to give some attention to that feature of it.

Prof. HUEBNER. That answers your question?

The CHAIRMAN. I feel that if you undertook to do business in Pennsylvania somewhere along the line you would encounter great difficulty getting by without any taxation excepting on net profits.

Prof. HUEBNER. There are three taxes——

Mr. WOODS (interposing). Do you think that your bill as your bill is worded, that the change that you make, to which the chairman called attention, from taxation upon gross to net, will have a tendency to encourage extravagance in insurance companies?

Prof. HUEBNER. The insurance commissioner of each State is in position to prescribe the kind of a report he wants, and I think insurance companies can be made to report in a way that will enable the insurance departments to determine what profits are. I think your question presupposes that if tax rates become too high there might be a desire to spend money freely?

Mr. WOODS. Yes.

Prof. HUEBNER. That might happen, but I do not think that is going to be a serious problem, if the rates are kept within the bounds of decency.

Mr. FITZGERALD. Prof. Huebner, have you any knowledge of the salaries paid by insurance companies? It is said their presidents get $50,000 a year in salaries now.

Prof. HUEBNER. I suppose there are some who do get that much, but I do not happen to be informed. A good man is entitled to a good salary.

Mr. FITZGERALD. I realize that. It also occurred to me that a good feature of this bill and some other bills might be tax levied upon corporations upon the amounts paid out in salaries.

The CHAIRMAN. Of course, at the moment they can only get the $50,000 in their minds. When they get through making reports to the Treasury Department they are ready to commit suicide.

Mr. FITZGERALD. Or go to the insane asylum.

The CHAIRMAN. After they get through making out their income-tax report. [Laughter.] Are there any further questions to be asked Prof. Huebner?

Mr. CAMPBELL. Do the rules of your committee prevent others from asking questions?

The CHAIRMAN. We are here, I assume, to get all the information we can on the subject in question. Do you wish to oppose this bill?

Mr. CAMPBELL. There are certain features of the bill which I am opposing.

The CHAIRMAN. Give your name, business, and address, and state whom you represent.

Mr. CAMPBELL. My name is Ira A. Campbell; my residence New York. I am a lawyer, and I represent the American Steamship Owners' Association. It owns in excess of 70 per cent of all privately-owned American vessels.

Mr. DEAN. Is Mr. Campbell's purpose now to make an argument or simply to interrogate the witness?

Mr. CAMPBELL. I want to ask the witness one or two questions. I desire to present what I want to say later. Mr. Huebner, the premiums which these companies receive will be paid by merchants and shipowners, will they not?

Prof. HUEBNER. That is true.

Mr. CAMPBELL. You spoke of the taxes which the insurance companies were paying, and I think you said they were 6 per cent.

Prof. HUEBNER. Of the net premium income, some over 6 per cent.

Mr. CAMPBELL. Does that 6 per cent include the special taxes which are levied by the States?

Prof. HUEBNER. Yes.

Mr. CAMPBELL. For the privilege of doing business?

Prof. HUEBNER. That includes all the taxation.

Mr. CAMPBELL. It also includes, does it not, the Federal taxes on income?

Prof. HUEBNER. Yes.

Mr. CAMPBELL. On excess profits?

Prof. HUEBNER. Yes.

Mr. CAMPBELL. Can you tell this committee what proportion of the 6 per cent represents excess profits paid by these companies?

Prof. HUEBNER. No, I can not do that. The showing is this: Approximately about half the taxes paid by all the companies were paid to the Federal Government and about half to the States.

Mr. CAMPBELL. Then, that tax paid to the Federal Government, which you say includes 6 per cent is the same tax or some character of tax that is paid by all corporations, in addition to 1 per cent tax?

Prof. HUEBNER. Yes. The Federal Government imposes an extra 1 per cent premium tax, and the Committee on Merchant Marine and Fisheries had recommended the abolition of that tax.

Mr. CAMPBELL. But, in addition to that, the insurance companies pay the same excess profits taxes?

Prof. HUEBNER. As regards the Federal taxes; yes.

Mr. CAMPBELL. And that goes to make up this 6 per cent?

Prof. HUEBNER. That goes to make up this 6 per cent; yes, sir.

Mr. CAMPBELL. The principal part of the marine insurance of this country is transacted in New York?

Prof. HUEBNER. The larger part.

Mr. CAMPBELL. What are the taxes levied in the State of New York for the privilege of doing business?

Prof. HUEBNER. The State of New York imposes a tax of 1 per cent of the gross premiums, less the return premiums and reinsurance in companies subject to taxation under the law of the State, and on companies of other States admitted to New York the tax is 2 per cent of the gross premiums, less reinsurance and in companies liable

for the tax. Alien companies pay an extra tax of five-tenths of 1 per cent franchise tax, less the return premiums and reinsurance in companies liable to tax.

Unless there has been change, at the time of the investigation, those were the rates.

Mr. CAMPBELL. What page is that on?

Prof. HUEBNER. That is taken from page 54 of the Report on Legislative Obstructions to the Development of Marine Insurance.

Mr. CAMPBELL. And on companies organized under the laws of the State of New York the tax of New York State is 1 per cent of the gross savings?

Prof. HUEBNER. Yes; less the return premiums, and on companies admitted from other States 2 per cent.

Mr. CAMPBELL. And that gives the balance of the 6 per cent. The other 5 per cent that you speak of, included in the 6 per cent, are what taxes?

Prof. HUEBNER. There are a great many fees. States differ in those fees, and I can not tell you offhand just what fees New York collects. Our tabulation shows there are just 47 varieties of fees that the States collected during 1918.

Mr. CAMPBELL. But those 47 varieties, plus 1 per cent tax, makes up 3 per cent, and the other 3 per cent of the 6 is the Federal tax?

Prof. HUEBNER. Of the element of fees, I can not speak offhand. I do not know how the aggregate of fees would work out on the basis of premiums.

Mr. CAMPBELL. But one-half of the 6 per cent is Federal tax?

Prof. HUEBNER. In other words, 2 per cent State tax, 1 per cent Federal tax would make 3 per cent on premiums. Then the fees have to be added, and the difference between the 6 per cent paid and whatever figure we would get would represent Federal income taxes and excess profits taxes.

Mr. CAMPBELL. Did I understand you to say that about one-half of the 6 per cent are Federal taxes?

Prof. HUEBNER. About one-half of the total taxes and fees paid by all of the 71 insurance companies was paid to the Federal Government and one-half to the States. Understand, as far as the Federal Government's portion is concerned, there is a 1 per cent premium tax.

Mr. CAMPBELL. You spoke of the proportion of these taxes to income, and in one instance you said the taxes amount to nearly 80 per cent of the income.

Prof. HUEBNER. That figure referred to the 20 leading American marine insurance companies that do business in a large number of States.

Mr. CAMPBELL. That tax amounted to nearly 80 per cent of the income and to nearly 40 per cent of the combined capital stock?

Prof. HUEBNER. Yes.

Mr. CAMPBELL. Those companies at that time were doing a sufficiently profitable business so that they were paying excess profits taxes to the Government?

Prof. HUEBNER. Yes, but on the other hand they were also doing business in many States, and there is a multiplicity of taxation. Some States, you understand, impose as high as 3 per cent premium tax.

Mr. CAMPBELL. What I am getting at is that this 40 per cent of the combined capital you speak of is comprised, in part, of excess profits?

Prof. HUEBNER. Oh, yes.

Mr. CAMPBELL. Of taxes on excess profits which these impoverished insurance companies pay. What companies in the United States doing a marine insurance business and fire insurance business failed to pay any dividends upon its invested capital stock during the past 10 years?

Prof. HUEBNER. I can not answer that offhand, but a good many paid no dividends.

Mr. CAMPBELL. Can you tell us of one company that failed to pay dividends to its stockholders during the last 10 years?

Prof. HUEBNER. I can look that up. I can not answer offhand. But, of course, you understand there should be earnings on the investment. It is a rather peculiar situation if an insurance company would not pay a dividend.

Mr. CAMPBELL. That is what I am coming to, because, as you know, I represent here at least one part of the interests who are paying premiums, and we are just as much interested in developing foreign trade as the underwriters are, and I wanted to see if I could get some information.

Can you tell the committee what company it was that paid the highest dividend in 1919?

Prof. HUEBNER. I can not do that offhand; no.

Mr. CAMPBELL. Have you any information that you could lay before this committee this afternoon as to the rates of dividends which these companies have paid in the year 1919, we will say? Can you get that from the New York State insurance reports?

Prof. HUEBNER. That can be done.

Mr. CAMPBELL. Are those available to you?

Prof. HUEBNER. Just let me have one moment.

Mr. KELLER. I would like to ask the gentleman whether the American shipping companies get most of their insurance in New York or abroad?

Mr. CAMPBELL. I can not answer that, except that it would be bought where they could buy it cheapest, and I suppose therefore most of it is bought in Europe.

Mr. KELLER. The purpose of this bill is to divide it into units and meet foreign competition, if they lower their rates?

Mr. CAMPBELL. If they lower the rates, but this bill is not going to do that. It is designed to increase the rates, as I will show you later on.

Mr. KELLER. That is important.

Mr. CAMPBELL. That is the point at issue. When the Congressman remarked that this pointed toward monopoly, he put his finger on one of its weak points; the other point is that this bill tends to increase the cost of insurance to the shipowners and the United States Shipping Board, if you please, which is struggling to survive to-day seas.

Mr. FITZGERALD. Mr. Campbell, if this bill makes it easier to organize these companies and syndicates that do business, it puts another competitor in the market as against your European insurers at the present time, and is there anything in this bill that tends to restrict them from doing business in competition with our home

companies and syndicates to be formed under this bill, or do you see any danger that they would in any way interfere or drive out that foreign competition?

Mr. CAMPBELL. I would like to take that up when I come to present my views regarding it.

Going back to my question, can you tell me, Prof. Huebner, what company paid the highest rate of dividends on its stock?

Prof. HUEBNER. I can not, offhand.

Mr. CAMPBELL. Can you find that out from the New York insurance reports?

Prof. HUEBNER. I think so.

Mr. CAMPBELL. You speak about these insurance companies making profits upon their investments. Where does the money come from? Where has the money come from which makes it possible for those insurance companies to have investments? What has been the source of it?

Prof. HUEBNER. As a rule, when companies are organized they ask the prospective stockholders to pay much more than par for the stock. I know of one, the organization of which is being considered right now, and one of the organizers told me he was asking prospective stockholders to make a payment of $200 for a $100 share so as to create a surplus fund. Some of the surplus comes out of profits, no doubts. Sometimes a dividend has been earned, but the dividend is not paid and is kept in the surplus. There are, in other words, various ways in which a company may pile up its surplus.

Mr. CAMPBELL. You say these companies make their profits out of investments. The money to invest is derived in two ways, is it not: First, from the invested capital paid in, and, second, from the profits which it makes on its underwriting business?

Prof. HUEBNER. Some, yes. You must also understand——

Mr. CAMPBELL (interposing). You say that these companies have been able to make a sufficient amount of money to always pay dividends upon their invested capital?

Prof. HUEBNER. If I recall the figures rightly, some 18 companies—about one-fourth of the total—in 1918 did not make an underwriting profit at all.

Mr. CAMPBELL. That is not what I asked you at all. I asked you whether or not those 18 companies made sufficient money upon their total invested capital to pay dividends?

Prof. HUEBNER. They made interest and dividends from invested capital as distinguished from underwriting profits.

Mr. CAMPBELL. Can you tell this committee, or can you lay before the committee from the New York insurance report—and they are reliable, are they not?

Prof. HUEBNER. I think so.

Mr. CAMPBELL (continuing). A statement showing the growth in capital and of surplus profits for 10 years of the 20 companies to which you have referred?

Prof. HUEBNER. I can not on the spur of the moment. That can be done.

Mr. CAMPBELL. Is it not a fact that every one of these companies which is to-day owning membership in this syndicate and which are fathering this bill, have continued to pile up surplus during the past 10 years?

Prof. HUEBNER. I think the gentlemen here can answer that better than I.

Mr. CAMPBELL. You are an insurance expert?

Prof. HUEBNER. There is a great deal paid in in surplus, beyond question.

Mr. CAMPBELL. Have they not accumulated surplus during the past 10 years?

Prof. HUEBNER. I think it can be said that their surplus has not accumulated in any degree as it has on the part of English companies.

Mr. CAMPBELL. I want to know if it is not a fact that those American companies have continued to pile up surplus?

Prof. HUEBNER. I hope they have a little. It is to the distinct interest of policyholders if they have.

Mr. CAMPBELL. But if they have been able to pile up surplus, they are not failing to make a profit, are they?

Prof. HUEBNER. They have made some profits, but the profits are not extraordinary. May I just say in this connection that the witnesses during the marine insurance hearing, representing the insurance companies, testified that on the average underwriting profits for a long series of years were below 5 per cent of the premiums.

Mr. CAMPBELL. Would it be asking too much of a favor to furnish from the New York insurance reports a statement showing incomes in capital and in surplus of these 20 companies during the past 10 years; show it as of 10 years ago and as of 1919?

The CHAIRMAN. May I add to that the request that you show how much of this accumulation came from marine insurance as distinguished from fire insurance?

Prof. HUEBNER. Mr. Chairman, that would probably necessitate a questionnaire being sent to each one of those companies.

Mr. CAMPBELL. The fact is that they do not make reports, do they, which are published in any insurance report, by which it is possible for the shipowner and merchant to determine what part of these surpluses and profits are made out of fire insurance, what automobile, and what marine insurance?

Prof. HUEBNER. I think the underwriters should be requested to furnish that.

Mr. CAMPBELL. That information is not available to the public in any published report, is it?

Prof. HUEBNER. Not to my knowledge; and I do not want to be too sure in saying that that can be compiled from existing reports. I will do my best.

The CHAIRMAN. Somewhere you will incorporate in the hearings a comparison of the amount of insurance in this country and in England. In other words, the impression is abroad that the vast amount of money goes for premiums to British companies which might be retained here if we pass a bill like this. That is the outstanding thing that would interest this committee or at least myself; we want to wish to keep this money home.

Mr. CAMPBELL. That is an unquestioned fact, and it does go there because we can buy cheaper insurance in that market; and the situation which you face to-day and which the merchant marine faces to-day is that the burdens have got to be reduced instead of increased.

Mr. HUEBNER. Is it not a fact that the merchants of the United States and the shipowners of the United States have not been asked to present their views to the House committee or the subcommittee on this bill?

Prof. HUEBNER. I can not answer whether they have or not.

Mr. CAMPBELL. You have been the expert in charge. Have you ever sent a kindly invitation to the Merchants' Association of New York, in order that they might come down here and present their views?

Prof. HUEBNER. I think that association sent an extended questionnaire around.

Mr. CAMPBELL. To attend these committee hearings?

Prof. HUEBNER. Everybody was invited to appear before the merchant marine insurance hearings.

Mr. CAMPBELL. In what way?

Prof. HUEBNER. It was spread broadcast that the hearings would be held. It appeared in the newspapers.

Mr. CAMPBELL. You never have set down formal hearings for which you have communicated with any of these people I have referred to?

Prof. HUEBNER. Personally, I have not.

Mr. CAMPBELL. And you have had charge of this matter, have you not?

Prof. HUEBNER. Yes; I have had charge of making the investigation, but anyone was free to attend the hearings.

Mr. CAMPBELL. It is a fact that the shipowners and the merchants have not been before the committee in the discussions on this and the hearings on this bill by their association?

Prof. HUEBNER. I believe they did not appear before the committee in the hearings; no, sir.

The CHAIRMAN. Are they here now?

Mr. CAMPBELL. Yes. But they are saying that this bill has been indorsed by the House committee. I guess it has been indorsed by the House committee, but it has been indorsed after hearings had primarily and almost wholly been with these marine insurance companies.

Prof. HUEBNER. Oh, no; brokers were present.

Mr. CAMPBELL. The people who are going to pay the profits which the underwriters want, were not; they are the American merchants and American shipowners.

Prof. HUEBNER. That is only a temporary situation which will not last.

Mr. KELLER. You said your company represented over 70 per cent of the merchant marine in this country?

Mr. CAMPBELL. No. Mr. Dean represents the company which represents 70 per cent of the merchant marine in this country, because he represents the Shipping Board with 1,500 ships, which have got to operate on the seas. I represent the American Steamship Owners' Association, the membership of which owns in excess of 70 per cent of the privately owned American tonnage.

Mr. KELLER. You represent that organization?

Mr. CAMPBELL. Yes, sir; I represent the only organization of any size of American private-ship owners.

The CHAIRMAN. Mr. Dean, you say you are connected with the Shipping Board?

Mr. DEAN. I am connected with it as an officer.

The CHAIRMAN. You are sworn in?

Mr. DEAN. Yes, sir.

The CHAIRMAN. All right; we will not swear you, then. Please give your name, occupation, and address.

STATEMENT OF MR. R. A. DEAN, SPECIAL ASSISTANT TO THE CHAIRMAN, UNITED STATES SHIPPING BOARD, WASHINGTON, D. C.

Mr. DEAN. My name is R. A. Dean; I was formerly general counsel of the Shipping Board and I am now Special Assistant to the Chairman. If I might suggest, I think the best way to get at this would be to let our own case be put in, and then call on Mr. Rush of the insurance company of North America, and then I would like to have the opportunity, in lieu of this rather extraordinary examination by Mr. Campbell, to make inquiries of the witnesses I hope he is going to introduce, and also Mr. Campbell himself when he makes his statement; and so, if it meets with your approval, I would like to have the hearing go on in the order that I have suggested, and, first hear Mr. Rush. May I also ask if this hearing will continue this afternoon?

The CHAIRMAN. That would be impossible on account of the rules of the House. We have to have permission of the House to carry on hearings while the House is in session. I do not know what arrangement members of the committee want to make for continuing these hearings. I should say we would be willing to put ourselves out very much, because this is an important matter and very interesting on account of the fact of there being gentlemen here from New York and elsewhere.

Mr. DEAN. Would it be possible for your committee to meet with the Senate Interstate Commerce Committee?

The CHAIRMAN. I think it was the decision of the committee that we would not do that, but would have this hearing in our own way here.

Mr. FITZGERALD. May I ask, Mr. Chairman, whether or not Mr. Campbell has a brief synopsis or résumé of his statement that might be furnished to some members of the committee, so that they might look it up and study it a little bit for themselves.

The CHAIRMAN. Of course, that would not mean we would not have Mr. Campbell appear before the committee.

Mr. CAMPBELL. I will be glad to appear.

The CHAIRMAN. In view of what he has already by indirection drawn from the chief witness, I should think it would be only fair that he would go on the stand.

Mr. CAMPBELL. I would not only consider it a privilege but an honor.

Mr. FITZGERALD. The committee would be interested in knowing all of the objections and possible objections to this bill, but also we would welcome some constructive criticism as to how the bill might be amended or better drawn.

Mr. CAMPBELL. If you will read sections 20, 21, 25, and 26 you will find embodied in there the subject matter to which I would like the opportunity of directing your attention to more specifically.

Mr. DEAN. In connection with that, Mr. Campbell, I notice the brokerage section. Do you represent the brokers?

Mr. CAMPBELL. No, sir; I do not.

Mr. KELLER. I move that the committee do now take a recess until 8 o'clock this evening.

(The motion prevailed.)

The CHAIRMAN. The committee will therefore take a recess until 8 o'clock to-night.

(Thereupon, at 12 o'clock noon, the committee took a recess until 8 o'clock this evening.)

AFTER RECESS.

Pursuant to the adjournment, the committee met at 8 o'clock p. m., Hon. Benjamin Focht (chairman) presiding.

The CHAIRMAN. The committee will come to order. Mr. Edmonds.

Mr. EDMONDS. Mr. Chairman, I understand that this moring while I was attending a meeting of the Claims Committee some gentleman here made a remark that he had not been notified, or that his clients had not been notified, of the hearings.

The CHAIRMAN. Will you please be a little more specific?

Mr. EDMONDS. The gentleman from New York, Mr. Campbell, made the remark that his people had not been notified of the hearings on this bill. I just wish to say for his information that there never were any hearings on this bill and never have been; that this is the first hearing that has ever been held on this bill. Therefore the statement that he made this morning is without any foundation at all.

There have been a number of consultations in regard to the drafting of the bill, and during the drafting of the bill I have visited quite a number of people in all lines of business. There has been no attempt on the part of the subcommittee of the Committee on the Merchant Marine and Fisheries to draft this bill, to stifle anything, nor is there any intention on the part of the committee to create any monopoly. We have been very careful about that. I wanted to make that statement in full fairness to the Committee on the Merchant Marine and Fisheries. That committee itself acted on the report of the subcommittee and favorably recommended this bill, without hearings. They agreed with the five principal points in this bill.

Now, Mr. Chairman, if you will permit me, I shall call next Mr. Benjamin Rush. Mr. Campbell asked this morning for certain information. Would you like to put that information in at this point, Mr. Chairman?

The CHAIRMAN. Before you go on the stand, Mr. Campbell, you would rather have that information, would you not?

Mr. CAMPBELL. Just so it goes into the record.

The CHAIRMAN. You might do so to get it in order.

Mr. O'BRIEN. Mr. Chairman, may I ask what gentlemen represent the different interests here?

The CHAIRMAN. As they appear as witnesses their names and addresses will be given.

STATEMENT BY PROF. S. S. HUEBNER—Resumed.

Mr. O'BRIEN. Whom do you represent, Prof. Huebner?

Prof. HUEBNER. I represent the Committee on the Merchant Marine and Fisheries and the United States Shipping Board.

Mr. KUNZ. And you are also a professor in the University of Pennsylvania, are you not?

Prof. HUEBNER. Yes, sir. Certain questions were asked this morning relative to the dividends that have been paid by marine insurance companies. On the spur of the moment I was not in a position to give precise details. However, this afternoon I looked over various records I had in the office which were computed on the basis of 1918 experience, which, by the way, was a very favorable year compared with the present one. The 1919 records will take more time to compile, but I shall be very glad to furnish that information very shortly. In 1918 for 67 American marine insurance companies the following appears. Ten companies paid no dividends in that year.

Mr. KUNZ. Will you state the names of the 10 companies?

Prof. HUEBNER. The American Equitable; the American Merchant Marine; the Columbia; the Globe National; the Home Fire & Marine; the Jefferson; the Liberty; the Newark Fire Insurance Co.; the New Jersey Insurance Co.; and the North Atlantic.

Mr. CAMPBELL. Those are all new companies, are they?

Prof. HUEBNER. No; a considerable number of those companies have been in existence for a good many years. I did not include in this list any company which started business in the year 1918.

Of the remaining companies seven declared dividends, which ranged between 3 and 4 per cent on the capital stock and surplus of the companies.

Mr. KUNZ. Can you not name the seven just as you did the others?

Mr. CAMPBELL. I do not like to object, but I do not know what "dividends on surplus" means. The dividend is usually paid on the capital stock.

Prof. HUEBNER. Yes; the dividend is paid on the capital stock, but the thought is that many insurance companies could retire from the insurance business altogether and by simply investing money now representing their capital stock and surplus could derive ordinary interest and earnings. Consequently, as regards seven of the companies the amount paid on the capital stock to stockholders was equivalent to from 3 to 4 per cent on the capital stock and the surplus, which, of course, the companies have invested.

With reference to 11 companies the dividends were equivalent to from only 4 to 5 per cent on the capital stock and surplus.

Mr. KUNZ. Pardon me. I would like to have in the record the names of the companies and the percentages that they paid, in order that we may verify the reports. Will you kindly state the companies that have paid dividends?

Prof. HUEBNER. I have a complete record here and can furnish that information in tabular form. It will take some time to pick out all the companies on my list.

Mr. KUNZ. I thought you had them on your list.

Prof. HUEBNER. I have, but I have not segregated them in the form you desire.

The CHAIRMAN. It may be understood that you will file such information.

Prof. HUEBNER. Yes; I will do that. One company paid dividends equivalent to from only 1 to 2 per cent on the capital stock and the surplus, and 11 companies paid dividends equivalent to from only 5 to 6 per cent on the capital stock and surplus. In all, 40 of the 67 companies paid dividends which amounted to 6 per cent or less on the investment—that is, the capital stock and the surplus. Ten more companies paid dividends equivalent to between 6 and 7 per cent on the capital stock and the surplus. So there are comparatively few companies where the dividends as measured by capital stock and surplus amount to more than 7 per cent. This is for the year 1918, and these figures were taken from the New York insurance reports. I examined this afternoon the disbursements of these companies and did not find for 10 companies any item of dividends under that heading. I presume the New York reports are correct.

Mr. CAMPBELL. Have you made a segregation so we may have the information as to the dividends on the capital stock?

Prof. HUEBNER. Yes. I had such a short time this afternoon that I did not succeed in segregating the companies, but I will do that this evening.

Mr. CAMPBELL. Have you there the dividend that was paid on the the capital stock by the Agricultural of Watertown, N. Y., in 1918.

Prof. HUEBNER. The Agricultural I have listed here for a dividend payment of $200,000 for the year 1918.

Mr. CAMPBELL. What is the capital?

Prof. HUEBNER. The Agricultural Insurance Co. had a capital of $500,000 and a surplus of $1,921,000, round figures, or a total surplus to policyholders of $2,421,000.

Mr. CAMPBELL. And they paid a dividend of 40 per cent on the capital stock, did they not?

Prof. HUEBNER. Yes; but on the total investment—that is, the capital stock and surplus—the dividend did not equal anything of that sort. It is not fair to measure returns solely on capital stock. If, for instance, this particular company reduced its capital stock from $500,000 to $100,000, the dividend, of course, would increase fivefold. In other words, if this company had a capital stock of only $50,000 but a surplus increased by the difference between $50,000 and $500,000, the dividend would increase tenfold.

Mr. CAMPBELL. Yes; but that is surplus in undivided profit, is it not?

Prof. HUEBNER. Not necessarily. The question you asked this morning as to how the surplus of these companies was derived for the past 10 years can not possibly be answered. That information would have to be obtained by questionnaires addressed to all the companies; and it is questionable whether it would be possible to separate the fire insurance from the marine insurance, and, in some cases, even the casualty insurance.

Mr. MILLSPAUGH. With respect to the Agricultural Co. of Watertown, can you tell how long they have been in the marine insurance business and whether a good part of their profits were obtained from marine insurance or from fire insurance?

Prof. HUEBNER. That information could be obtained only by addressing the company and having them segregate the figures.

Mr. MILLSPAUGH. You do not know whether this enormous surplus was built up out of fire insurance or marine insurance?

Prof. HUEBNER. I am sure it was built up out of fire insurance.

Mr. DOYLE. Did they do any marine business in 1918?

Prof. HUEBNER. They did a slight amount of marine insurance in 1918, but not very much. The total net premiums received by this company were $3,652,000, and the net premiums from marine inland insurance was $751,000; but most of that, I presume, was on automobiles and inland risks, which, strictly speaking, are not marine risks.

STATEMENT BY MR. BENJAMIN RUSH.

(The witness was duly sworn by the the chairman.)

The CHAIRMAN. Will you state your address and business, Mr. Rush?

Mr. RUSH. I am president of the Insurance Company of North America, of Philadelphia.

I would like to explain, as briefly as possible, the fact that the model marine insurance bill, so-called, did not originate with the marine insurance companies.

Mr. O'BRIEN. May I interrupt for just one moment, Mr. Rush? Do you represent all kinds of insurance?

Mr. RUSH. All except life. I am also president of the Casualty Company. I am appearing now for the North American.

As I understand the matter, the House Committee on the Marine and Fisheries addressed a questionnaire to various American insurance companies, the result of which was testified to by Prof. Huebner this morning. They showed, in brief, that from two-thirds to three-quarters of the insurance on American ships and products was effected in nonadmitted companies—by that I mean companies not admitted to the United States—or in the agencies of such foreign companies that were admitted to the United States.

I believe that the purpose of that committee in ascertaining these facts was to inform itself as to what effect that state of affairs had on the commerce of the United States. They did not have any idea of furthering the interests of any insurance company or insurance companies as such.

From the information which they received from that questionnaire, and from subsequent conversations with or visits that they had received from various shipping interests in the United States and insurance companies and others, they drew up this model marine insurance bill to be what the name I have called it implies; a model for the States to follow, because this matter is not in the hands of Congress; it is in the hands of the individual States, and it would require their action to bring this bill to its full fruition. That is not only its purpose, but I believe it would be its result, and it will be effected in the following way: By relieving the American marine insurance companies of the tax differential which now handicaps them. Prior to the war—and I take that time because that was a normal time of trade uninfluenced by war conditions and is, consequently, a better time to cite than recent years—I say prior to the war the differential in tax between the foreign system of taxing net profits and the American system of taxing gross premiums laid a handicap on the American merchant insurance companies doing a

marine business of about 3½ per cent in round figures. Now, 3½ per cent is a pretty fair profit in itself on marine insurance business.

The company of which I am president, in a record of something like 40 years, taking the underwriting profit on its marine business and taking, in addition, the interest on its marine reserve and on its outstanding losses, has realized a profit in the neighborhood of 5½ per cent, of which probably 2 to 2½ per cent would be a banking profit on interest on money. So 3½ per cent amounts to quite enough to enable the foreign company to underquote any American company in rates.

That differential, together with others which I will subsequently cite, resulted in a very large number of American marine insurance companies winding up and going out of business. As a little illustration, just prior to the Civil War when American commerce was at its high ebb, there were 52 companies doing marine business in Philadelphia, my native town. Just prior to the late war there were exactly two doing such business, if I am correctly informed. During that time American commerce did undoubtedly increase, and there should have been certainly a reasonable number of American companies left to do that business.

Another reason for the disappearance of American marine insurance companies is the fact that the regulations proposed and imposed by the various State insurance authorities, in my opinion as a marine insurance man, have been drawn for the regulation of fire business principally and were not really applicable to marine insurance; but it necessitated marine companies keeping extensive and expensive records for the filing of statements with the various State governments. That, incidentally, cost extra money which came on their shoulders.

The second principle of the model marine bill is that it provides for what an insurance man calls multiple-line coverage—that is, it allows marine insurance companies to write not only marine insurance, but fire and casualty and indemnity insurance—in fact, all different kinds of insurance, except life and bonding. That has been the practice of our foreign competitors for many years. The principle of multiple-line coverage, as you can readily see, reduces overhead charges. A company that can do three or four different kinds of insurance still requires only one president and one secretary and one treasurer; whereas if the business were split among half a dozen companies a different office staff would be required for each one. It is also a great convenience to the public. It is like one of these large department stores. If you go into a large department store in Philadelphia you can buy anything you wish from a suit of clothes to a toothpick or an automobile. That enables such a store to sell cheaper than an individual store. The same principle is attempted, and I hope will be realized, in this model marine insurance bill. It tends to cut down overhead charges and rates. It will be a particular convenience to the small American companies. Europe is full of small companies doing a multiple-line business, and they thrive and prosper. At present as the laws exist in the United States it is only a big company that can arrange to write multiple-line business. My company organized another casualty company a couple of years ago for the purpose of writing casualty business. The small company would

have had trouble in doing it. It ought to be permitted to do it as well as the big ones.

Now, the third principle of the model marine bill, the permitting of centralization of administration in syndicates, bureaus, etc., is for the purpose of economy in operation and in cooperation. A very good illustration is the hull syndicates. They are composed of a varying number of companies. We will say, for the sake of argument, that in Syndicate B there are 50 of them. They employ one underwriter; they employ one treasurer, they issue one policy, with the exception of one or two States, where under State laws they have to have it countersigned. If there were 50 companies writing that same amount of insurance, they would have all the overhead charges due to their being in the hull business. When a loss occurred each one of them would be represented by a surveyor or two surveyors. In fact, I have known of cases where there have been 30 surveyors on one ship instead of the one or two that are employed by the syndicates.

By the power of concentrated responsibility the cost of repairs to these steamships would be very greatly reduced, I confidently anticipate. With the cooperation of the United States Shipping Board and the private owner we are in a position to see that the American private owner and the Shipping Board get low prices for repairs from the various yards. We are in a position to go to the steel men and find out what the price of steel is and we are able to ascertain the price of all material that enters into ship construction. We know what repairs cost in Philadelphia; what they cost in New York, and what they cost in Baltimore and other places; and if anywhere repairs seem to be unduly high, we have the power, provided the ship is seaworthy to make the trip, to take her from one port to another in order to get the cheapest bill. All that would reflect in the long run in a reduction in rates.

Another advantage which we hope to realize for American shipping by the operation of these syndicates is the representation of American marine underwriters in all principal foreign ports by some good American citizen who will have the interest of his country at heart. Apparently at present in most foreign ports if a ship encounters disaster there she is dependent on a foreign surveyor to make the survey and on foreign facilities to do the repairs. I do not think that is as it should be, and I hope if these syndicates continue to prosper that we will be able to alter that condition by having American representatives certainly in the principal foreign ports and, finally, American dock and repair facilities there, because it stands to reason that if an American ship were in a small port in the East Indies or the China Sea and a ship of some other nationality were also there in disaster and that ship of other nationality had a surveyor there, that ship is going to get the work first.

So much for the hull. As regards cargo, especially bulk cargo, like burlap, it is convenient for merchants to deal with a syndicate because they get one policy for the whole amount and do not have to shop around the streets and get half a dozen policies from many companies. It also means prompt settlement in loss cases to have a statement of loss passed by one adjuster for a lot of companies instead of 30 or 40 adjusters for 30 or 40 companies. It saves money and time, and it also saves in the cost of adjustment.

Now I am coming to what I believe to be the most important feature of this model marine insurance bill, and I wish to say, gentlemen, that as far as I see it, this is not a question of insurance primarily; it is a question of enabling the American merchant marine to live and exist and expand. If I were simply testifying on behalf of an insurance company, I would feel that I was rather imposing on the time of the committee. They are here for a bigger thing than that. The part to be played by American shipping is one of a three-fold chord. To succeed in foreign trade, if we are able to take any lessons from the experience of the past, it requires the cooperation of banking facilities, of ship-owning facilities, and of marine insurance facilities. That is a three-fold chord on which Great Britain and in recent years Germany have established their commercial supremacy. If one is absent, the other two are seriously weakened. If both are absent, I think it is safe to say that the other one can not succeed alone.

So far as marine insurance is concerned, America should have ample and full marine insurance facilities for two reasons, primarily. First, there is the leak of money on premiums sent abroad. Every dollar in marine premiums that is unnecessarily sent abroad, in my opinion, stabs every American workingman and every American farmer and every American merchant and every American citizen in the back. It may be necessary to send some abroad, but it is not necessary to send as much as we have been sending. First and foremost, it takes capital out of the country and what is worse than that, it gives information to our trade competitors.

If a merchant in the United States insures his goods in transit, let us say, to Rio de Janeiro or the Dutch Indies in some foreign company, in due course of time he is going to have a claim for a loss on those goods. The first thing that the foreign insurance company, in common with domestic ones, will ask him for is a copy of his invoice showing the value of those goods. That invoice contains information of his selling price and it goes into the hands of men who conceivably can use it against the interests of the American manufacturer, the man who produces the goods to sell abroad. It does not do so in every case, but let me put this thing to you: These foreign insurance companies in foreign nations do not have any law against interlocking directorates. The director of an insurance company is also the director of a shipping company and a bank. Our man here, let us say, is manufacturing machine tools at some place in Ohio and he makes shipment in competition with the world down to Rio de Janeiro. The Englishman who is in competition with him and did not get the order is sore. Some fine day he is possibly playing a round of golf with a director of some insurance company from England and he mentions the fact that he has lost this trade order. His friend says, "Perhaps I can help on that. We insure a lot of that stuff down there." In some way the information gets out to that English or Dutch competitor. It ought not to be. I think that is a reasonable inference, because when we got into the war with Germany it was learned through the Alien Property Custodian that Germany got a lot of information about American trade from the American agencies of German insurance companies. They knew what was going on. And if such information got to Germany it got to other countries.

The third reason why we ought to have our own insurance here applies principally to shipping, and, as insurance is allied with shipping, I shall mention it here. That is the delay in the delivery of American goods entrusted to foreign bottoms. You have to have the American vessels rather than foreign vessels carry the goods, and, if the American, you ought to have both the banking and the insurance to protect those steamers.

If you ship by a foreign line, it is within the power of that line to divert trade, to delay trade, to handicap trade. We ought to have our own ability to compete with that.

Those are the principal reasons why I think the House Committee on Merchant Marine and Fisheries have done a very fine public service in their advocacy of this bill.

There has been another point brought up, and that is the question of monopoly, regarding which I wish to speak before I finish. I am absolutely positive that the bill as drawn will not permit of it. But I would like to give you a few of my own reasons based on 35 years' experience. Marine insurance is different from fire insurance in this respect, that there are always two ends to every foreign transaction, one in this country and one in some foreign country; and it is practically impossible to combine the marine insurance companies of the world in any kind of a trust or organization. There is no way of making a marine protective tariff in favor of American marine insurance companies, which was the first thought of the House Committee, their first thought being, I believe, to see if they could not get a kind of a tariff on foreign insurance companies. That is not possible because there is no law in any State of the Union; there is no law of the United States; and there is no possibility of passing any such law that compels any American citizen to insure his property if he does not want to.

Therefore, if American companies were so foolish as to endeavor to obtain and to succeed in maintaining a monopoly on insurance in the United States, there is nothing in the world to prevent the American merchant from writing to his shipper in a foreign country, saying "You place the insurance over there and I will not take a cent out of it out here." It is not a possible thing to do. The American merchant does not need to place a cent on insurance. As I say, he can write somebody else and "let George do it" in some other country. In that case the taxes are paid to the foreign government and not to America.

The competitive markets of the world are perfectly ready to take marine insurance should the American rates get too high, and they have done so on account of their tax differential to the extent of 60 to 75 per cent, as shown by Dr. Huebner's testimony.

Another reason why we could not go behind our guiding in the question of rates is the fact that we are all under the supervision of the State insurance departments. They are watching.

As regards our rates for the American syndicate—Syndicate B of the Shipping Board was mentioned this morning—I would like to point out that if the Shipping Board regards the rates as being too high they can cancel them on three minutes' notice.

I think there is only one other thing I would like to bring to the attention of the committee before I close, and that is the question of taxation. We hope that the system of taxation which is now in

effect in America and which has resulted in this tremendous slump in American marine insurance, will be changed from taxation on premiums to taxation on profit to put us on a basis with our foreign competitors.

I think while we would apparently show a decrease in the immediate taxation on marine insurance, the amount of premiums which will be kept in this country, if we insure all the business here instead of sending such a large portion abroad, would considerably offset that reduction. In the second place, on such business as is necessarily exported under this bill, if we still have to send some more over, we provide a 2 per cent tax, which, perhaps, we do not get now.

The CHAIRMAN. You mean 2 per cent on the foreign companies?

Mr. RUSH. Yes. Finally, the tax on interests and reserves, and over and above that, gentlemen, if the American Merchant Marine, which we now have and which we hope to see live and prosper, remains to this country, the values that are going to be brought into it by carrying out our own words and being able to deliver our own goods on time, by affording facilities to our merchants to sell abroad, will be so great that I should say the taxable values retained to the United States ought to be 100 to 1 to the direct loss in premiums in this change in taxation from premiums to net profits. And as one of those three-fold chords I wish to impress upon you that marine insurance is one of those vital chords to the continued and increased supremacy of American commerce throughout the world.

Mr. KUNZ. How much of that insurance is sent abroad? Do you know?

Mr. RUSH. There is a great deal of it. I have not definitely informed myself on that subject.

Mr. KUNZ. You have no record of it?

Mr. RUSH. I have no record of it. I represent my own companies. We have to insure a great deal abroad ourselves.

Mr. KUNZ. How much have you sent abroad that you could not handle here?

Mr. RUSH. About $125,000 a year.

Mr. KUNZ. In premiums?

Mr. RUSH. Yes, sir.

Mr. KUNZ. What percentage is that of your business?

Mr. RUSH. That would be very small. We did a marine insurance business last year of about $9,000,000.

Mr. KUNZ. Do your insurance companies in any cases insure foreign vessels? Do we get any foreign business, in other words?

Mr. RUSH. Only of a very infinitesimal amount, sir. Once in a while where they have a big line, like the Cunard, they will come over here. I could not as an American company go in England and expect to do business on the same terms as an Englishman, although my vessels were as good as his, because he would give preference to his own people.

Mr. KUNZ. What is the difference in the rate now on the insurance?

Mr. RUSH. We try to compete with the foreigners.

Mr. KUNZ. Not now, do you, under present conditions?

Mr. RUSH. We would not have done a business last year of $9,000,000 in premiums if we had not held up our rates pretty well.

Mr. KUNZ. Your rate is lower than the foreign rate?

Mr. RUSH. It is not lower, but it is equivalent to it.

Mr. O'BRIEN. Mr. Rush, you made a statement to the effect that this information leaks out in competition; that is, if an American firm beat a foreign competitor the price or value of the cargo leaks out. How does that happen?

Mr. RUSH. First by the invoice being in the hands of the foreign insurance company, which conceivably might be interested in a shipping company or insurance company.

Mr. O'BRIEN. By interlocking directorates?

Mr. RUSH. Yes. All Englishmen stick together. I do not blame them. It is perfectly good business to do that. That is what we ought to do over here. But that information is in their hands and it is capable of being used.

Mr. O'BRIEN. Do you mean to say that it is more difficult for an American to take out insurance in London than it is for a Londoner to take out insurance in New York?

Mr. RUSH. It is harder for him to get it. He can enter there, but he will not get the first choice as the Englishman does over here. An American is more apt to deal with a company on its rates and not think of the backfire that may come on him by dealing with a foreigner.

Mr. HAMILL. Well, those invoices are never furnished except in cases of loss?

Mr. RUSH. No. I had one of the managers of a German company, who has since died, call me severely to account because I made the statement about leak of information. He said, "No information I had in my office ever got to the German Government. We only gave it to Dr. Albert." What reached Dr. Albert I think it is safe to say, reached the German Government if they wanted it.

The CHAIRMAN. Are there any further questions that any of the members of the committee wish to ask Mr. Rush?

Mr. O'BRIEN. Mr. Rush, do you think this is a model bill for your purposes?

Mr. RUSH. I think it is the finest thing on marine insurance I have ever seen in my life.

Mr. HAMILL. Does the bill afford proper regulatory provisions, something like the provisions of the different States? Is it properly protected in that regard?

Mr. RUSH. It is a model for the States. It provides full supervision for the District of Columbia Commissioner. His word goes on that thing.

Mr. HAMILL. It is something like State insurance?

Mr. RUSH. Yes.

Mr. O'BRIEN. As a general proposition, will it prevent competition?

Mr. RUSH. No, sir; it will increase it.

Mr. CAMPBELL. Do you say that the insurance departments have control over the rates?

Mr. RUSH. No, sir; they do not except in certain States where they have written laws on fire insurance.

Mr. CAMPBELL. They do not control marine insurance, do they?

Mr. RUSH. They do not.

Mr. CAMPBELL. Can you tell me about what your loss ratio is?

Mr. RUSH. For the first four months of this year it was a little over 100 per cent.

Mr. KUNZ. What was the loss in 1918?

Mr. RUSH. For 1918 I could not testify under oath. I should have to look up my records.

Mr. KUNZ. Could you state what it was for 1919?

Mr. RUSH. No; I would like to refresh my mind before testifying as to those years.

Mr. KUNZ. For 1920?

Mr. RUSH. I think in 1920 we netted about $73,000 on a business of a little over $9,000,000 on marine. We made money in the war, which was, to a certain extent, dissipated in the shrinkage in the value of our securities.

The CHAIRMAN. We thank you very much, Mr. Rush.

Mr. EDMONDS. Mr. Chairman, I have a quite a number of other gentlemen here to testify.

The CHAIRMAN. All right, sir.

Mr. EDMONDS. I was going to suggest that perhaps the committee would rather hear Mr. Campbell on the bill and then some of our witnesses might answer.

The CHAIRMAN. Very good.

Mr. EDMONDS. We may in that way cut short the hearings. I understand from information obtained from Best's Manual that the amount of premium exported from this country, known as good and bad, is between four hundred and four hundred and twenty-five million dollars a year. That includes fire and all kinds of insurance excepting, I believe, life insurance.

The CHAIRMAN. How many witnesses will you have, Mr. Edmonds?

Mr. EDMONDS. I can give you 15 if you want them.

The CHAIRMAN. No; but we would really like to ascertain how many are yet to testify.

Mr. EDMONDS. I thought if Mr. Campbell would make whatever statement he desires to make and would bring forth his witnesses, possibly I could bring in two or three of my witnesses and answer them and close the hearing for you, unless you want to go on to hear all the gentlemen who are here.

The CHAIRMAN. I do not think that is possible.

Mr. EDMONDS. Well, that would be the easier way for you, because all these gentlemen will probably confirm what has been testified to so far. I have the manager of the syndicates, Mr. McGee; Mr. Reese, an attorney; Mr. Thatcher, an attorney; Mr. Chubb, and the assistant surveyor of the syndicates. I have quite a few of these people here if you want to hear them.

Mr. KUNZ. I think we had better hear from the syndicate people first, and then Mr. Campbell can testify. Then, Mr. Edmonds, you could put on your witnesses in rebuttal.

Mr. EDMONDS. I also have Mr. Doyle here and Mr. Dean, representing the Shipping Board, but we want to have a chance at rebuttal later on.

Mr. KUNZ. You can have a chance at rebuttal.

Mr. EDMONDS. So you can let Mr. Campbell testify and present his first witnesses and then let my people answer.

Mr. MILLSPAUGH. Would their testimony be a repetition of what has been said?

Mr. EDMONDS. Not a repetition, because each one has his duty in the business and would talk along his particular line, but it would be virtually along the same line.

The CHAIRMAN. Would there be any new phases that would have to be amplified to any great extent?

Mr. EDMONDS. I do not believe so, unless it should appear that something should develop from the people who are opposed to the bill.

The CHAIRMAN. I think you had better go ahead with whatever you have, and then we will hear from Mr. Campbell.

Mr. EDMONDS. Well, supposing I call Mr. McGee, the manager of the syndicates?

The CHAIRMAN. How many witnesses have you?

Mr. EDMONDS. Ten or twelve.

The CHAIRMAN. How many have you, Mr. Campbell?

Mr. CAMPBELL. Only myself.

Mr. DOYLE. Mr. Campbell is not going to produce any steamship witnesses of whom we can ask questions, then?

Mr. CAMPBELL. No. That question contains the implication that I am afraid to produce witnesses. I am not. I had notice of this hearing yesterday.

Mr. EDMONDS. Day before yesterday. Correct yourself.

Mr. CAMPBELL. Mr. Edmonds told me day before yesterday, when I was in Washington, that this hearing was coming off. At that time I was under no direction to come here. The Steamship Owners' Association got their notice through the meetings. The association and the Shipping Board are badly tied up in this strike. It was impossible for any of those men to get down here on last night's train. If this hearing should go over until some time during the week in order to give an opportunity to bring the men down here, we would be delighted to have them come so that they can tell you what their side of the shipping situation is. We are not so far apart as these gentlemen would seem to indicate in our views as to what ought to be done. I have a sort of feeling as though it was felt here that the shipowners ought not to have a voice in this thing, that we are antagonistic to the development of foreign trade. We are not. We are in favor of this bill in many of its phases. But your notice was so short and the situation with respect to the strike was such that it was impossible for those men to get down here. If you will postpone the hearing we can have here more than 15 witnesses if you want them.

Mr. EDMONDS. In regard to your statement, I would like to say that full publicity was given in all the insurance journals and in the public press, such as the Public Ledger of Philadelphia, and I presume others by the Shipping Board's publicity manager. It was presumed that anybody who was interested would come to the hearing. It is not up to the proponents of a bill to go hunting for witnesses. The shipping men have not been neglected. They have been advised. A copy of this bill was published four or five months ago in all the insurance journals in the country. It was published in every journal that these men could see. There has been no reason why they do not know about the bill or what it proposes to do. As a matter of fact, more publicity has been given to this bill than any other bill that I know of, and because they should happen not to see the papers containing the

notice, is certainly no reason why we should go out and ask them to come down here. I think that is beyond all reason.

Mr. HAMILL. Have they been notified of the time of the hearing?

Mr. EDMONDS. I told Mr. Campbell day before yesterday. He was here in the morning and he and I were together on quite a bit of business, and I told him then that this hearing was going to be held this morning. He said it was the first notice he had. But I have seen it in the Philadelphia Ledger. The publicity manager of the Shipping Board had notices published in the papers. Unfortunately they just did not see it. But certainly if I have a bill here I do not run around New York or any other place to find witnesses to come down here to oppose it.

The CHAIRMAN. Inasmuch as we are all here and it is the sense of the committee that every opportunity be given to both sides to be heard, even if we have to continue into next week, let us proceed to hear your side as far as we can. But before we close we should hear from Mr. Campbell.

Mr. EDMONDS. I think we should hear their objections. We are not so far apart. Mr. Campbell's statement is correct in that respect. I think the strongest disagreement between us is in the fact that we put a two and a half per cent tax on export insurance. We are endeavoring to keep this $425,000,000 in this country. If we had it here to-day the banks would have money to loan. They would have considerably more capital to-day to hand out to our people.

The CHAIRMAN. How much was that amount you mentioned?

Mr. EDMONDS. $425,000,000, about.

The CHAIRMAN. Paid in premiums?

Mr. EDMONDS. Paid in premiums on all kinds of insurance going to foreign account.

The CHAIRMAN. That is fire insurance and life insurance, also?

Mr. EDMONDS. I do not think it includes life insurance. It includes marine insurance.

Mr. KUNZ. Where do you get those figures?

Mr. EDMONDS. Best made a report on it.

Mr. O'BRIEN. How much of that is marine insurance, Mr. Edmonds?

Mr. EDMONDS. I could not say. The probability is that marine insurance of this country is mixed up in automobiles, and so forth, and we can not tell about that. The presumption is that the majority of it is marine.

Mr. O'BRIEN. Could it be separated?

Mr. EDMONDS. I do not think so. If you wish I will bring Mr. McGee forward now.

Mr. FITZGERALD. What is the objection to hearing Mr. Campbell at once? We want to know some reason why we should not approve this bill.

The CHAIRMAN. In other words, you are satisfied with the information you have on one side of the question?

Mr. FITZGERALD. Yes.

The CHAIRMAN. That is what I asked Mr. Edmonds, if there would be any new phase of the subject opened by these gentlemen?

Mr. EDMONDS. No; there will not be any new phase opened.

Mr. O'BRIEN. Does Mr. Campbell believe that his rights would be precluded by not having these other men testify?

Mr. CAMPBELL. Not a bit. It is immaterial to me.

Mr. O'BRIEN. Would you be affected unfavorably by not having your men here?

Mr. CAMPBELL. No; the facts speak for themselves.

Mr. O'BRIEN. The imputation was made that these men are not here because they have no defense or argument to advance.

Mr. FITZGERALD. No; Mr. Campbell was rather taunted by the fact that he was not producing any witnesses for them to examine. That is rather a little camouflage by counsel.

Mr. EDMONDS. I do not think there should be any personal feeling in the matter.

Mr. CAMPBELL. There is no personal feeling in the matter.

The CHAIRMAN. Then, we will hear Mr. Campbell now.

STATEMENT BY IRA A. CAMPBELL, REPRESENTING THE AMERICAN STEAMSHIP OWNERS' ASSOCIATION.

The witness was duly sworn by the chairman.

Mr. KUNZ. Will you please state your residence and whom you represent?

Mr. CAMPBELL. My residence is New York City. I represent the American Steamship Owners' Association.

Mr. KUNZ. Would you mind giving your address?

Mr. CAMPBELL. 27 William Street is my office address; 417 Park Avenue is my residence. The American Steamship Owners' Association comprises about 80 American steamship companies. I was told this afternoon on the telephone by its secretary that those 80 companies own five-sixths of the American private owned tonnage engaged in overseas or foreign trade.

Mr. O'BRIEN. Are you their attorney, Mr. Campbell?

Mr. CAMPBELL. Yes; my firm are counsel for the association. I am a member of the firm of Kirlin, Woolsey, Campbell, Hickox and Keating of 27 William Street, New York.

Mr. MILLSPAUGH. Can you tell how much tonnage your companies represent?

Mr. CAMPBELL. I think it is about 55,000,000 dead-weight tons of shipping in overseas trade, and the secretary tells me that the association membership owns about five-sixths of that.

I do not want Mr. Edmonds to labor under the impression that my reference this morning, or rather my inquiry this morning, about these hearings, was in a fault-finding sense. He was not here. I asked for the resolution which had been adopted by the subcommittee of the Merchant Marine Committee, because I knew of no hearing which had been held by that committee at which the shipowners had had an opportunity of expressing their views. That resolution, therefore, may express, and it does express, the ex parte views of that committee without their having heard either from the shipowners or from the merchants.

Now, so far as our coming down here is concerned, I happen to know that the Merchants' Association of New York City has a meeting called for Tuesday or Wednesday of next week at which they propose to take up this question. I do not represent them. I

know nothing about them excepting that information, but there is no one here, so far as I know, in their behalf.

I want to say in opening that the Steamship Owners' Association approves of the major part of this bill. The American Steamship Owners' Association is not so unpatriotic as to desire to see the British marine insurance built up at the expense of the American marine insurance. We believe that we are just as good patriots as the marine underwriters or any of the other citizens, and we are devoting —I say "we;" I am speaking of my clients—we are devoting just as strenuous effort toward the building up of foreign trade and the advancement of it in the interests of this country overseas as any other citizens.

We appreciate the burdens under which the marine underwriters of this country live and operate. I know something about it. Prior to my becoming counsel for the Shipping Board, the major part of the clients that I had in this business—and I have been in the business 18 years—were marine insurance companies doing business on the Pacific coast. I know something of their trials and tribulations and burdens. So we are not endeavoring to strike at them in any way at all.

I also know that there is no man in Government service, in Congress or out of Congress, who is more sincere or who has given more of his time and energy to endeavoring to build up the American merchant marine than Mr. Edmonds. I have worked in close touch with him for several years, at least three years, and I know that he would not put a provision in the bill if he were convinced that it was not for American interests. I do believe, however, that there are provisions in this bill which are not in accord with the general American foreign trade interests.

As we see the bill, there are provisions here which are going to be a hindrance to the development of foreign trade rather than a benefit.

The provisions of the bill which provide for the levying of taxes upon underwriting profits instead of gross premiums meets with our hearty approval. We think a man ought to be taxed in accordance with his ability to pay, and that is measured in this business by profit. We certainly believe there should be a syndicate such as "A" is; a service syndicate organized for the purpose of looking after the salving and repair of the vessels, and so on with many other features of the bill. But this bill, as we see it, lays a burden upon the American shipowner and the citizen, and the burdens that they are facing to-day are such that they can not stand any more.

The United States Shipping Board, according to a report rendered on the 1st of January, has 1,335 steel ships of an average dead-weight tonnage of 6,200 tons. The controller of that board testified, I believe, before your Appropriations Committee, was it not, Mr. Dean?

Mr. DEAN. Yes; the House Appropriations Committee.

Mr. CAMPBELL. I do not know the figures—Mr. Dean can give them to you—but the operating income of those vessels would run $60,000,000 behind the operating cost, and the Government has investment in those shipments raised by taxes. It is not in the business at the present time for earning and return upon the investment the way the shipowner is compelled to do.

Mr. FITZGERALD. Right now we are running at the rate of $60,000,000 behind in the cost of operation alone?

Mr. CAMPBELL. I believe that was the testimony. Mr. Dean can correct me if I am wrong.

Mr. DEAN. That was Mr. Tweedale's estimate made at that time based on such returns as had come in to his department. Let me say also that when you think of that figure you must think of the fact that the year previous and the six months previous to that, when they started a very small fleet, the gross revenues from operations were $516,000,000. The steamship business fluctuates. Everything is now stagnant, and you must bear in mind that it waves back and forth. Mr. Franklin, the president of the Mercantile Marine Association, told the Senate Commerce Committee that same thing. He pointed out at that time that a surplus was a very valuable asset for this sort of business where losses for a period would be very great.

Mr. CAMPBELL. A week ago the director of operations of the Shipping Board in New York told me that there were 621 steel ships owned by the Government laid up and out of operation; that the private shipowners had a million tons laid up and out of operation because there was no business. The very fact that the shipowners, aided and backed by the Shipping Board, are making the strenuous fight that they are to-day for a reduction of only 15 per cent in the wages of the crews shows what the situation is, because they have to have that reduction if they are going to meet operating expenses.

The war is over. We have deflated in the shipping business, and they are down to brass tacks, so far as that kind of business is concerned. I question whether the Shipping Board can produce to you the name of a single vessel that to-day is paying its operating expenses that is not going into the red. You have heard Mr. Hurley, the former chairman of the Shipping Board; you have heard his successor, Judge Payne; and you have heard Admiral Benson, the present chairman of the board, and every one of them say that Government operation is an absolute failure. These ships can not pay operating expenses, and the only way that can be worked out is through the hands of the private shipowners.

Now, that is the condition to-day. This investigation was started, Mr. Edmonds, I think, a year or more ago, was it not?

Mr. EDMONDS. Eighteen months ago.

Mr. CAMPBELL. And it was started at a time when we were on an inflated basis, at a time when the United States Shipping Board was selling ships at $219 a dead-weight ton. Except where sold to wealthy steamship companies that had a surplus, practically every one of the buyers of those vessels has gone into the hands of receivers. For instance, I happened to represent a man in New York that came here and bought two ships. He bought on the basis of $215 a ton and he paid down 25 per cent on the purchase price, $800,000 in cold cash. We had to put him in the hands of a receiver because he could not make sufficient income to operate that vessel, and the United States Shipping Board had to advance money in order that that vessel might be brought back from foreign waters.

Mr. EDMONDS. What became of the money he made while conditions were good? We found that one man in New York bought apartment houses.

Mr. CAMPBELL. But this man did not. This is the one man who had a set of books. The Shipping Board did sell its vessels to such

companies as the Fox crowd, that did not keep any books. What they did with the money the Lord only knows. I do not believe the United States can find out where it went.

The shipping business has gone to rock bottom. Here is a statement—it has been given general circulation—by one of the most efficient American operators of the voyage of a steamer called the *Orinoco*. I do not know whether he bought it from the Shipping Board or not. He shows the expenses of a round voyage from New York to Buenos Aires. He shows the loss on that voyage as $16,192, and he charges insurance on that voyage on the basis of a valuation of $60 per dead-weight ton. I ask you to inquire of any of these underwriters if they are insuring these vessels on the valuation of $60 a ton. His insurance is being carried on the basis of $190 a ton, but he is only entering up $60 a ton, and yet on that round voyage he shows a loss of $16,192.

Now, gentlemen, it is not a question of the American shipowner making money that ought to go into the pockets of the marine underwriters in order that they might build up their business. It is simply a question as to whether they are going to be able to live in the face of the foreign competition which they are encountering and which they are going to continue to encounter. It is a question of life or death.

Now, this bill contains no provision that we object to for the first 27 pages.

Before I go to that, let me refer back to something else, please, to show you something of the situation.

This comes down to purely a question as to who is going to be able to carry the burden that exists in the foreign trade situation in the insurance business. I want to read to you an excerpt from the report of Mr. S. S. Huebner, because it contains about as strong an indictment of what they propose to do as can be had.

Mr. KUNZ. What book is that?

Mr. CAMPBELL. His report.

Mr. KUNZ. What page?

Mr. CAMPBELL. Pages 10 and 11. Undoubtedly there are many burdens resting on the marine underwriters through State legislation. We would like to see the cost of this insurance come down, but the way to secure it is not by imposing a burden upon the shipowner, and if it can be cured it should be cured through the enactment of a national corporation statute, or something of that kind; not by a shifting of the burden.

Mr. Huebner says here:

> Compared with fire insurance, marine insurance is influenced much more adversely by excessive taxation and other legislative barriers. This is due to the international and competitive nature of the business. Fire insurance differs essentially from marine insurance in that the rates are fixed and that virtually all stock companies operating within the United States, domestic as well as foreign admitted, cooperate in underwriters' associations with respect to all important matters. Practically every section of the country is under the jurisdiction of some fire underwriters' association, which includes among its functions the actual fixing and enforcing of rates, and rate changes take the form of percentage additions and deductions because of some general change in circumstances surrounding the business as a whole.

As you know, fire insurance rates are made up of a series of rates, additions and deductions from a base rate, depending upon the character of the building, the location of the building, the fire

hazard, the fire equipment inside the building and outside the building, and the nature of the industry in the building. That is the reason why they form these associations and fix rates in proportion to the hazard.

The proportion of American fire insurance written by nonadmitted foreign underwriters, moreover, is much less than the proportion of marine insurance transacted in the foreign market. For these reasons fire rates are comparatively non-competitive—

They are fixed by an association.

and can therefore much more readily absorb excessive taxes and other burdens. Such taxes and costs, in other words, are included in the rate to be shifted to the buyers of insurance.

In this discussion please bear in mind that this is a commodity that is being sold in the open market. These underwriters are sellers of insurance, and the buyers are the American shippers and the American shipowners. He says here:

Such taxes and costs, in other words, are included in the rate to be shifted to the buyers of insurance, the comparatively non-competitive rates being fixed at a point sufficiently high to cover all costs plus a reasonable underwriting profit.

In marine insurance, on the contrary, no such static conditions prevail. Rates are anything but fixed, and brokers have for years acted as free lances in the business. Competitive conditions, largely of an international character, have prevailed to such an extent that all past efforts of underwriters to effect cooperative arrangements for the purpose of stabilizing rates have either failed or been confined to the mere recommendation of rates without any definite obligation for their enforcement. Not only have foreign competing underwriters been given easy access to our domestic market, but the exportation of marine insurance, originating in the United States, to nonadmitted foreign underwriters is freely permitted, and, as already pointed out, is taking place on a stupendous scale.

On that point I want to divert for a moment. Mr. Edmonds speaks of the enormous volume of premiums going abroad. He said $425,000,000. Some one said that the total amount of American marine insurance premiums in 1914 was something like $80,000,000. We are told that 75 per cent of the hull insurance goes abroad. Mr. Rush says that the loss ratio was over 100 per cent. I believe I am correct in defining the loss ratio as the proportion of loss to premium income.

Mr. RUSH. That was four months.

Mr. CAMPBELL. On that basis; yes. If I understand correctly, on that basis of four months the loss amounted to——

Mr. RUSH. We lost a lot of money in the first four months.

Mr. CAMPBELL. Who got the money? The assured got the money. If the British underwriters' loss is the same we are making money out of sending it abroad, because if the assured, if the shippers of cargo and the shipowners are getting back 101 per cent of the amount of premiums they are paying, we are making money out of the British shipowner today.

Mr. FITZGERALD. Do more ships go down under falling markets than in good times?

Mr. CAMPBELL. I do not know.

Mr. FITZGERALD. I suspect that human nature is pretty much the same on the sea as on the land; and cargoes are lost and ships are lost; but I wanted to know what is the cause of this loss in the last four months?

Mr. CAMPBELL. I do not know. To-day we were discussing at lunch with Mr. McGee the insurance question, and I asked him a question whether he found there was an increased hazard as to vessels with oil-burning apparatus as compared with coal, and he said he thought that was so. That may be one explanation. I do not know.

I will say this, however, that the underwriters are as astute a crowd of business men as are doing business in the United States of America and they have the best lawyers in New York representing them, and I do not know of a single prosecution that has ever been brought.

Mr. FITZGERALD. Is this a case of coals of fire on Mr. Thatcher's head?

Mr. CAMPBELL. I do not know of a single prosecution that they have attempted, where they have ever charged a shipowner with deliberately destroying the vessel.

That is the only answer that I can give as to whether there are more losses on a deflated market than otherwise.

But the point is that the premiums which are going abroad to the British underwriters are not remaining over there. They are coming back; and if the facts are as I believe them to be, as these men have said and as they will say, that the loss ratio is very, very high, it means that we are getting back a very large part of that capital.

Mr. EDMONDS. Of course it is only temporary. You do not expect that to continue. The marine insurance would not continue, would it?

Mr. CAMPBELL. I do not know, because the source of income to these gentlemen is not solely premiums paid in. They have got capital that is out in investments; and, furthermore, they have a very large amount of money constantly in their hands in reserve for the payment of losses. Suppose I insure my ship to-day and I pay my premium, and to-morrow she goes out and suffers a loss of some kind. I collect my insurance about six months from now, perhaps two years from now. We are having a most awful time in New York now collecting on losses that happened in 1917.

Mr. FITZGERALD. Is that the reason you pay this tribute to the lawyers?

Mr. CAMPBELL. No; it is not the lawyers' fault this time. Those are just conditions that exist.

But the point is that those premiums are in the hands of the underwriters during that intervening period, and that money is out and they are earning an income upon that invested money, so that they have a source of income other than merely the premiums which are paid in. That is why Mr. Rush's company can pay dividends and why he can pile up surplus, notwithstanding the fact there there is a loss ratio once in a while of 101 per cent.

Mr. EDMONDS. Do you think that if we could keep all these premiums over here it would be desirable?

Mr. CAMPBELL. Surely. You bet I am in favor of it if you can do it, but I do not want it done at the expense of the shipowner when he can not spare it.

Now, to continue:

Marine insurance rates, in other words, are subject to foreign undercutting, and excessive taxes and other legislative burdens can not, as in the case of fire insurance, be shifted to the buyers of insurance if they are free to seek the cheaper foreign market. American underwriters are obliged to absorb such burdens themselves.

And that is what you are trying to cure by getting away from it and putting it all upon the shipowner.

They are not free to demand a premium which will include any taxes and other legislative burdens that may be imposed and still provide a reasonable underwriting profit. They can not shift charges to the consumer because their rates can not be raised to a level in excess of those charged by their more favored foreign competitors.

What do they want to do? They are trying to build a protective tariff around marine insurance for that very purpose.

The recent marine insurance investigation clearly demonstrated how merchants and vessel owners, obliged to meet international competition in the world's markets—

And that is where we had to earn our money in competition with the world—

emphasized the importance of being allowed to place their insurance in the foreign market if that is cheapest. Moreover, many commercial transactions present so small a margin of profit that the size of the insurance premium will determine whether the venture can be undertaken or not.

Could you read a stronger indictment of the situation in which the American shipowner is fixed?

The bad feature of this bill to which I am objecting is that there is a raising of the premium which the shipowner and the shipper has got to pay.

He says here:

Moreover, many commercial transactions present so small a margin of profit that the size of the insurance premium will determine whether the venture can be undertaken or not.

And that is exactly the situation with the American merchant marine to-day.

A small difference in the rate, adverse to our own underwriters, will direct the flow of marine insurance to the foreign market.

Why? Because they do not meet competition.

This is quite natural, and it avails us little to argue that American merchants and vessel owners have not, as a general rule, patronized home companies in the same way that foreigners have supported the underwriters of their own country, and that they have looked merely at the cost of marine insurance and have regarded it as a mere commodity rather than as a national service. To the individual shipper or vessel owner the purchase of marine insurance is a strictly business proposition.

Of course it is—just like we buy our coal and we are paying wages to the crew. Just like Admiral Benson is standing for a reduction of 15 per cent in the wages of his firemen and engineers to-day as the other shipowners are.

Competition in international commerce, involving the close figuring of narrow margins of profit, makes necessary close figuring in the cost of marine insurance. And even where profit margins are not small, it is only natural that business men should want to effect all possible saving in their marine insurance bills. The cost of insurance, as between our own and foreign markets, is the crucial question for solution in any attempt to establish a vigorous and lasting national marine insurance institution.

Could you have a stronger indictment of the situation than that contained in this report?

The underwriter gets his premium from the shipper and the shipowner; and I am speaking for the shipowner. Under what conditions does the ship owner get his money to pay the underwriter? He gets it in world competition; and the world competition is such to-day that Mr. Dean, I believe, will tell you that the Shipping Board vessels can not be operated and pay their expenses. I prophesy that before the present Congress is over the United States Shipping Board is going to be up here before your Appropriations Committee asking for millions to meet the losses on the operation of those vessels. Why? Because those vessels can not be operated in the face of foreign competition.

We buy our coal on a competitive market. We are trying to buy our labor and provisions in a competitive market. We are trying to buy our repairs in a competitive market. We are buying our marine insurance to-day in a competitive market, and we ought to be permitted to continue to do so. We earn our money under competition and our outgo ought to be subject to competition; but this bill tries to throttle competition, and that is my objection to it.

Mr. EDMONDS. Will you not name the point?

Mr. CAMPBELL. Yes, sir. Section 20; and I am going to read it:

That any company organized or admitted to write marine insurance within the District may become a party to any corporation, association, exchange, or bureau organized for concerted action—

That means combination—

with respect to any one or more of the following purposes: The supervision or performance of a maintenance, inspection, and loss survey service—

We heartily approve of that—

the supervision or conduct of salvage operations—

We heartily approve of that, and that is what Syndicate A is organized to do—

the formulation, adoption, or enforcement of policy forms and conditions—

And that we object to.

Rates of insurance, or the costs, more properly speaking, are not necessarily measured by the percentage of premium. A 4 per cent premium under one form of policy on a ship may be much more costly than a 4 per cent premium under a different form of policy; it all depends upon what you are getting for the 4 per cent.

What you are getting for the 4 per cent is determined by the terms and conditions of the policy; and I think these underwriters will tell you that terms and conditions of policies are subject to competition just exactly as rates are. In a competitive market you get better conditions under your policy out of one underwriter than you will get out of another underwriter.

For instance, I think I am correct in saying this, that the American underwriters refuse to insure vessels on as low a valuation as do the English underwriters.

That is one of the conditions of the policy which works to the disadvantage of the shipowner and makes him more costly insurance. That is one of the reasons, I believe, why we get cheaper insurance in England than we can get in the United States to-day. But be that as it may, if you ask the underwriters they will tell you that as

the business has been going on for years and as it goes on to-day the conditions of the policy are one of the things that are in competition, and if that were not so they would not be asking for the privilege of combination for the purpose of fixing those conditions.

Mr. EDMONDS. Right on that point, will you let me ask you a question?

Mr. CAMPBELL. Yes, sir.

Mr. EDMONDS. Of course this is for the District of Columbia. You understand that?

Mr. CAMPBELL. Yes, sir.

Mr. EDMONDS. If this export tax of 2½ per cent were taken out of the bill what objection would you have to that form of policy?

Mr. CAMPBELL. These two sections?

Mr. EDMONDS. No; I am speaking of the 2½ per cent provision.

Mr. FITZGERALD. They are interrelated.

Mr. CAMPBELL. I will come to that.

Mr. EDMONDS. What objection would you have to this bill if this 2½ per cent tax were removed?

Mr. CAMPBELL. I want competition.

Mr. EDMONDS. You would have competition, would you not? If the tax is removed you will have foreign competition, will you not?

Mr. CAMPBELL. I will so far as your tax is concerned, but so far as your American underwriters are concerned, if you give permission to combine into a concerted action for the purpose of fixing policy forms and conditions, I do not get any competition in the United States.

Mr. EDMONDS. But you do get competition.

Mr. FITZGERALD. If there is a standard quality of the goods you buy why do you not get competition on price? That is what it comes to, anyway. If you buy some article and that is the only kind of article that can be sold in standard form, why can you not get competition on price? That is taking it for granted, as Mr. Edmonds says——

Mr. CAMPBELL. But prices and rates are two different things. Prices influence quality conditions. The amount that you are going to put in under given circumstances is an important feature.

Mr. FITZGERALD. But it is to be made the same for all companies. It is a standard form.

Mr. CAMPBELL. But that is exactly what I do not want.

Mr. FITZGERALD. We want to know why you can not have competition on cost if the only goods that can be sold by anybody must be standard and all alike.

Mr. CAMPBELL. Because I may want to vary conditions, different conditions than what this monopoly says it will give to me.

Mr. EDMONDS. That is not a fair statement.

Mr. CAMPBELL. I will withdraw the word "monopoly."

Mr. EDMONDS. But you have got to acknowledge that my question is right, that even if the American companies did all get together and form a standard form of policy, if the 2½ per cent tax, which is your principal objection to the bill, the export tax, were removed, you would have competition with foreign countries, would you not? And you would have, anyhow, because the foreign companies would write their policies as they pleased. You know there is a standard form of policy in England, do you not?

Mr. CAMPBELL. There is a Lloyd's form of policy.

Mr. EDMONDS. There is a standard form by the board of trade in England, too, because I have seen it.

Mr. CAMPBELL. If there is a standard form of the board of trade I am not familiar with it. Your policy conditions in England are subject to competition just as your rates are.

Mr. EDMONDS. I do not think they stick to the standard form, you understand, because I think they have written policies differently; but there is a standard form.

Mr. WOODS. But if this proposed organization under this bill did not give you as reasonable a form of policy or as reasonable a competition they would cut themselves out of your business unless they gave you a less rate.

Mr. CAMPBELL. Yes; I would go to England. I would place it abroad.

Mr. WOODS. Is not that a protection for you?

Mr. CAMPBELL. A slight protection, yes; but I want competition in this market, because I want the benefit of it and I want the opportunity to place my business here as much as I can. Why are they seeking combination if it is not an advantage to them, if it is not going to shut out competition? If competition is not a disadvantage to them, why do they want the right to concerted action?

Mr. EDMONDS. There is nothing to prevent another company being formed and going out to get their own form of policy.

Mr. CAMPBELL. No; but that very company could go into this combination. No companies are required to go into this combination, but you are authorizing a combination.

Mr. EDMONDS. We have already authorized it. It does not make any difference whether this authorizes it or not. It has already been authorized in the Jones bill.

Mr. CAMPBELL. That may be true. If that is sufficient protection there is no need of their having it in here.

Mr. EDMONDS. This is a bill for the District of Columbia, you understand.

Mr. CAMPBELL. This is a bill for the District of Columbia, yes. A a bill for the District of Columbia it does not amount to that (snapping fingers), so far as this business is concerned. But that is not the real purpose of this bill. The real purpose of this bill is to announce to the world the fact that the United States Congress has adopted a model insurance law which the underwriters will ask all the States of the Union to follow; and that model insurance law permits of the formation of organizations for concerted action which, so far as section 20 is concerned, eliminates competition as to the formulation, adoption and enforcement of policy forms and conditions, the recommendation, approval, or making of rates of premium. Those sentences are the ones that I object to.

Mr. EDMONDS. Let me ask you another question. Why do you object, in the insurance business, to such a proposition when your clients are interested in export companies that are to-day forming big combinations to control companies in the foreign trade?

Mr. CAMPBELL. That is one of the illustrations I want to come to, because you are doing just the antithesis of that. Let me take that up in connection with the other point.

The two points in this section that I object to are in lines 23 and 24 on page 28, providing for the formulation, adoption, or enforce-

ment of policy forms and conditions, and, in lines 1 and 2 on page 29, the recommendation, approval, or making of rates of premium—because that throttles competition.

Mr. EDMONDS. You agree that it does not prevent foreign competition?

Mr. CAMPBELL. No; it does not prevent foreign competition. It prevents competition in the United States.

Mr. EDMONDS. Excepting from some companies outside.

Mr. CAMPBELL. You are giving a preferential treatment to a special class of business that you do not accord to another class of business excepting that which is designed for export trade.

Mr. EDMONDS. This is export trade too, you know.

Mr. CAMPBELL. You are asking the United States Congress to put on its books a statute for every State in the Union to follow, to permit concerted action in the fixing of terms and conditions of policies and the making of rates, and you provide no machinery for the supervision as to what those rates shall be or what reasonable rates are. I think in some States of the Union, where similar action is had or permitted with respect to fire insurance companies, you have supervision of rates. And I was recently informed that in the State of Arkansas, I believe, the insurance commission has called for a reduction in fire insurance rates because the agreed rate of this association has gone to an excessive amount.

Mr. EDMONDS. Of course that does not prevent any State that wants to use a part of this bill from having all the supervision it pleases.

Mr. CAMPBELL. No; but that is no reason why I should not object to the principle of it, because I have no assurance that the States are going to cast out of this bill the undesirable features of it and not adopt them.

Mr. EDMONDS. But you must understand that in the District of Columbia they have got all the controls for insurance companies that are in existence in the States. This is a side show to the regular insurance law of the District of Columbia. We did not put that in, because it was not necessary.

Mr. CAMPBELL. I do not know anything about that.

Mr. FITZGERALD. Would it not obviate this objection if some allusion could be made to existing law, in some way meeting the objection raised here by Mr. Campbell?

Mr. CAMPBELL. I do not know that there is such a provision.

Mr. EDMONDS. Oh, yes; there is.

Mr. FITZGERALD. Is there any law which prohibits combinations to make rates?

Mr. CAMPBELL. No; there is no provision of law that I know of.

Mr. DOYLE. There is uncertainty in the minds of the underwriters as to whether or not it is in the Clayton Act.

Mr. CAMPBELL. Why uncertainty?

Mr. DOYLE. There is not any law against it. You will agree with me on that. The Clayton Act does not touch it. The Sherman Act does not touch it.

Mr. CAMPBELL. I see. For the reason that it is very questionable whether insurance may be regarded as commerce?

Mr. DOYLE. You know it is not.

Mr. CAMPBELL. I am not so certain that those decisions go far enough. They go so far as to say that marine insurance is not the subject of commerce. I am not prepared to go that far. If that were so and the lawyers who drew that bill followed it through they would not put it in.

Mr. DOYLE. I did not want it.

Mr. CAMPBELL. But some lawyers that drew the bill did. Whoever drew the bill thought it was uncertain and they put it in there.

Mr. DOYLE. I do not think that is the truth about the matter. I think some underwriters were worried about it, but I do not know any lawyer that was worried about it.

Mr. CAMPBELL. Then the underwriters evidently would not take the advice of counsel. They were not willing to act upon their advice.

Mr. DOYLE. Maybe it was excess of caution.

Mr. WOODS. Your objection is to the principle of that class of legislation?

Mr. CAMPBELL. My objection is to the principle of that class of legislation, and I object to what I believe is going to be its application to practical business; that is, that these people are going to combine and they are going to force down the throat of the American shipowner and shipper a uniform policy with policy conditions that they agree upon.

I can not go, as a shipowner, to one underwriter and say, "I want you to give me a better form of policy than that for that insurance rate. Will you listen to me? Let me argue to you."

I go to another underwriter and I say, "For these reasons I think you ought to change these conditions of the policy." No. What will they do? If they carry it out they will have one man to whom we all have to go and that man will say, "Take it or leave it. Competition is gone."

Mr. EDMONDS. Do not say that, because you know you can still get the foreign policies

Mr. CAMPBELL. I am speaking about policies in the United States. I grant you that. I do not want to go abroad unless I have to. The American ship owner is not paying his money out to the British underwriters because he wants to patronize a Britisher. The American ship owner is just as good a patriot as anybody else. He would like to keep his money in the United States.

Mr. FITZGERALD. This does not mean one form. It means standard forms and conditions. Does not that cover and should it not cover all the known recognized forms and conditions that enter now into the practice or might properly enter into the practice of marine insurance, so that you can have every one of them, whether it be a gasoline or an empty house clause as to fire insurance policies in vogue in the business and that each one would have its price and its addition if you want to do this, and that it would all have proportionate prices.

Mr. CAMPBELL. You probably have seen the New York standard form of fire policy, have you not?

Mr. FITZGERALD. I have seen a similar one in Ohio.

Mr. CAMPBELL. Ohio has one, yes. Nearly all the fire policies are written on one sheet with those conditions on it.

Mr. FITZGERALD. They paste on riders, etc.

Mr. CAMPBELL. But very few of them. You look at your marine insurance policies as existing today on those large fleets, and you will find that they are covered with riders covering the peculiar exigencies of the business. You may have a proportionate fire risk in a town of a certain class, depending upon location, character of in-industry, and fire protection, etc., but marine insurance hazards are peculiar to themselves.

Mr. FITZGERALD. They are so numerous that they can not be classified and brought into a certain number of classified forms?

Mr. CAMPBELL. Absolutely.

Mr. EDMONDS. Of course you understand, Mr. Campbell, that this is in existence today.

Mr. CAMPBELL. What?

Mr. EDMONDS. This is operating to-day; and it is only a question as to whether you want to admit it in the District of Columbia or not by this section of the bill.

Mr. CAMPBELL. What is in operation?

Mr. EDMONDS. This syndicate is in existence.

Mr. CAMPBELL. I presume that the syndicate is doing business in the District of Columbia.

Mr. EDMONDS. This is only permitting the syndicate to do business in the District. The syndicates are already in operation.

Mr. CAMPBELL. But the syndicates do not need this bill in order to go into the District of Columbia. Syndicate B is already doing business.

Mr. EDMONDS. We are simply legitimizing it into this bill.

Mr. CAMPBELL. You are doing it already with syndicates A, B, and C; I think you are doing it in the District of Columbia so far as syndicate B is concerned, because it was negotiated in the District of Columbia.

Mr. EDMONDS. That is correct.

Mr. CAMPBELL. Then you do not need this bill for the purpose of authorizing them to do business in the District of Columbia.

Mr. EDMONDS. We are simply trying to do it in one bill.

Mr. CAMPBELL. I do not know, but I believe that these very underwriters, if the committee would ask them, would say that in the operation of syndicates B and C they have eliminated competition so far as the making of rates is concerned among American companies, so far as policies and terms and conditions are concerned.

Mr. EDMONDS. I understand you distinctly object to the formation of these syndicates.

Mr. CAMPBELL. Basically, with all due respect to you, you have got the cart before the horse in this thing. You have no more desire to build up American marine insurance than the shipowners have. Neither have these underwriters. But you are trying to build up the marine insurance business at the expense of shipowners instead of permitting the shipowners, in the face of world competition, to build up their business and establish themselves, which will necessarily strengthen and build up the business of the marine insurance companies.

Mr. EDMONDS. I am going to answer you on that.

Mr. CAMPBELL. You are trying to build up the marine insurance first. We want to build up the shipping business first, and the shipping business will build up the marine insurance business. That is the difference between us.

Mr. EDMONDS. Let me answer you on this. We found that every marine insurance company, almost, in this country was working by itself, that it was its desire to make treaties with the other side, and most of the business went over to the other side in that way. The only way that we could get a number of the insurance companies together to handle this marine business so that we could present to the shipper a line of at least $2,000,000 a ship was to go at it in the way we have in these syndicates. We worked over a year on that alone, and even up to last week, before these syndicates were formed, they were still at loggerheads, and we only got them together in the last week.

Mr. CAMPBELL. When you talk of loggerheads and that you could not get them together, is not that nothing more or less than telling the company that competition existed and they were competing with each other?

Mr. EDMONDS. What we were trying to perfect and what we were trying to do was to get insurance facilities in this country, and the only way we could do it was to get these companies together, because not one of those companies cared to take more than a hundred thousand dollars of risk; and when a ship comes along with two million dollars' worth of insurance, and the company can carry only a hundred thousand dollars in this country, the shipowner goes outside. That is what happens.

Mr. CAMPBELL. Marine insurance, in its original placing, is measured by the amount of capital, the amount of surplus which those companies have paid in. Has the formation of the syndicate increased the invested capital in the marine insurance business?

Mr. EDMONDS. It is too early to tell that yet. The syndicates have not been in operation a year.

Mr. CAMPBELL. Is there any indication that it has increased?

Mr. EDMONDS. Mr. McGee will answer you on that, and Mr. Chubb, and a number of others will answer you.

Let me call your attention to your principal client, the International Mercantile Marine Co.

Mr. Franklin was before the Shipping Board. Here is the typewritten account of his testimony. He was asked whether these ships were insuring. Of course a great many of these ships are under foreign flags. He was asked whether he insured his ships in this country. Mr. Franklin answered:

> They are insuring through agencies divided up between a good percentage or some per cent in American companies and the balance in foreign companies generally. When we bought the Pacific Mail steamers, five or six of them, whatever it was, we gave the insurance to the American broker immediately who fixed all our insurance, but he was only able to fix 5 per cent here and the balance abroad. Our policy is to fix our insurance wherever we can get the lowest rate, and we are ready to give just as much of that insurance to the American underwriters as they will take at the same rate as we can get it placed in the world market.

Which shows you that there was no facility in this country. What we are trying to produce by this joining of American interests is that the ship can go at least to that, and instead of retaining $100,000 or $200,000 in this country, to retain at least $2,000,000 on any ship if the rates are right.

I agree with you that the rates have got to be taken into consideration.

Mr. CAMPBELL. You can not increase your facilities unless you increase the invested capital or surplus. I do not know why American underwriters would not take but 5 per cent of the insurance offered on the American flag ship, I can not answer that. You will have to seek that from the underwriters. Evidently his statement is that he offered these American flag ships—he took off the ships running to China and they are now running to Germany and opening up the German trade—he offered them to American underwriters and they took about 5 per cent of it.

Mr. EDMONDS. That possibly might have been the broker's fault.

Mr. CAMPBELL. I am not speaking for the broker. I do not know anything about that part of it.

If I may go to section 26: Section 26 provides:

That any person or corporation holding such license from the superintendent who shall do or perform any or all of the aforesaid acts in connection with marine insurance with any corporation, person, partnership, association, Lloyd's, individual underwriters, or interinsurers which are not authorized by license of the superintendent to transact such business of insurance in the District, shall keep a separate record.

I am not interested in what duties are placed upon them in making them keep records, but I am interested when it comes down to the point beginning in line 22, page 33. Let me go back and pick up the subject of that sentence if I may.

That any person or corporation holding such license from the superintendent who shall do or perform any or all of the aforesaid acts in connection with marine insurance * * * shall keep a separate record thereof, * * * and shall, in May and November of each year, upon the statement of the superintendent, pay to the collector of taxes a privilege tax for the right to exercise the privileges granting by said license, measured by and amounting to 2½ per centum upon the amount of such gross premiums for the insurance so solicited, negotiated, procured, or placed during the preceding six months.

You have to read those two sections together. Section 24 provides:

That any insurance agent or broker, incorporated or unincorporated, or any other person, partnership, or corporation who or which, with or without compensation, shall in or from the District act for or with, or aid in any manner, either directly or indirectly, any other person, association, partnership, or corporation in soliciting, procuring, or transacting marine insurance with or from any corporation, partnership, association, Lloyd's, individual underwriters, or reinsurers not authorized by license of the superintendent to transact the business of insurance therein, and whether the subject matter of the insurance or reinsurance is or may be within or without the District, except as in this chapter hereinafter provided, shall be guilty of a misdemeanor and shall forfeit to the District the sum of not less than $100 nor more than $1,000 for each offense.

Section 25 provides:

That the superintendent, in consideration of the yearly payment of $25, may issue to any person or corporation maintaining in this District a regular office for the transsction of an insurance brokerage business a license revocable in the discretion of the superintendent, permitting the party named in such license to act within the District as agent or broker for the assured, to solicit or negotiate or place contracts of marine insurance with corporations, partnerships, associations, Lloyd's, individual underwriters, and interinsurers which are not authorized to transact the business of insurance in this Disttict, and may renew the same annually.

The tax is a tax of 2½ per cent on the gross premiums of insurance placed with underwriters. This, I suppose, primarily strikes at the insurance that is placed abroad.

Mr. FITZGERALD. Do you consider that rate prohibitive. Would it drive the foreigners out of competition?

Mr. CAMPBELL. Would it drive the foreigners out of competition?

Mr. FITZGERALD. Yes.

Mr. CAMPBELL. I do not know whether it will or not.

Mr. FITZGERALD. I just want a rough estimate of your opinion about it.

Mr. CAMPBELL. I will come to that. I will show you how it is going to operate.

The tax is levied for the purpose of preventing the insurance from going abroad.

Mr. FITZGERALD. This is to give the infant industry a little helping along.

Mr. CAMPBELL. To compel the insurance to be placed here?

Mr. FITZGERALD. It is to create a preference.

Mr. CAMPBELL. It is to create a preference. So that you can get the extent of 2½ per cent on the gross premium, which is about 5 per cent upon the net premium, because your net premiums, according to the New York insurance reports, amount to about one-half of your gross premiums. It places a protective tariff around the American flag ships to the extent of 2½ per cent.

What is the effect of that? The effect of that is to make it possible for the underwriters to charge 2½ per cent more for their insurance than they are charging at the present time—not to meet foreign competition. It is a tariff wall. Who pays it? If the insurance is placed in the United States the tax is not paid, is it?

Mr. FITZGERALD. No.

Mr. CAMPBELL. It is not paid. If the insurance goes abroad the American underwriter does not get it, does he?

Mr. FITZGERALD. No.

Mr. CAMPBELL. So he gets no benefit from it. That tax which goes into the hands of the Government will be of no benefit to this underwriter unless the Government gives him the tax, will it?

Mr. FITZGERALD. Oh, yes. If it helps to give an incentive to get this increased capital into these syndicates so that we have more and greater facilities for insurance, and it seems to me it is not so high as to prohibit foreign competition while we are building this up, I can not see why it would not help.

Mr. CAMPBELL. If the tax is not paid it means that the insurance is placed in the United States.

Mr. FITZGERALD. You are taking extremes.

Mr. CAMPBELL. I am trying to point out who pays the tax on the thing. My point is that the American shipowner pays the tax. My proposition is that this marine insurance business is not in such dire need and desirous of assistance through a tax as the American shipowner is to-day. Who are you going to help? You are trying to establish an American merchant marine. You spent three billions of dollars. You got 1,335 steel ships. You have got them laid up in your harbors because they have not employment. You have got them coming to Congress to ask the people to pay more taxes. We are carrying all the burden we can carry. The shipowner can not go to Congress and say, "Please help us meet our deficit; I can not carry another dollar."

Mr. FITZGERALD. How hard does this bear upon you?

Mr. CAMPBELL. It bears to this extent: There are fleets in New York——

Mr. EDMONDS. Figure it out on a $2,000,000 ship at 4 per cent.
Mr. CAMPBELL. $50,000.
Mr. EDMONDS. Oh, no. I said a $2,000,000 ship.
Mr. CAMPBELL. Oh. I thought you said a $2,000,000 premium.
Mr. EDMONDS. Take a $2,000,000 ship at 4 per cent.
Mr. CAMPBELL. $80,000; and 2½ per cent of that is $5,000.
Mr. EDMONDS. Two and one-half per cent of that is $2,000. Two and one-half per cent of $80,000 is $2,000.
Mr. CAMPBELL. But there is one fleet, I believe, which has a premium of $4,000,000 that pays $100,000.
Mr. EDMONDS. What fleet is that?
Mr. CAMPBELL. I think it is the Standard Oil fleet. It is one of the oil companies.
Mr. EDMONDS. They insure themselves.
Mr. CAMPBELL. Oh, no; I do not think they do. If they do, they have changed recently.
But that is not the point. The point is that you want to build up an American merchant marine. That is your cry. How are you trying to build it up? By placing another burden upon the shipowner. You say this tax does not amount to anything——
Mr. FITZGERALD. I do not say so. I am asking you how hard it bears upon you.
Mr. CAMPBELL. It bears to the extent of 2½ per cent upon the gross premiums. I can not give it to you in dollars and cents.
Mr. FITZGERALD. I mean, in a general way, is it a serious matter?
Mr. CAMPBELL. It is a serious matter. We would not be down here objecting to it if it were not a serious matter. It must be a serious matter when we can not meet operating expenses. Why have you not had an American merchant marine developed on the high seas for the last 20 years? Why did you have to wait until a war came along to build these 1,335 steel ships? Is it because the American business men have not wanted to make money?
Mr. FITZGERALD. To answer your first question, because England got the jump on us in the Civil War.
Mr. CAMPBELL. But how many ships did you have under the American flag in foreign trade before the war? Practically none. Why didn't you? Because the American shipowner could not survive in the face of——
Mr. FITZGERALD. He never had a chance to build up after the Civil War.
Mr. CAMPBELL. Why?
Mr. FITZGERALD. Because England destroyed our commerce, or permitted it to be destroyed by the *Alabama* and other cruisers.
Mr. CAMPBELL. We had the money and the shipyards.
Mr. FITZGERALD. Yes; but England had the start and the advantage, and we never recovered from that.
Mr. CAMPBELL. Why? Because you could not operate your American ships in competition with foreign ships.
Mr. FITZGERALD. We had a higher degree, possibly, of qualifications, in the treatment of sailors, and in other things upon which we could not meet foreign competition.
The CHAIRMAN. You ask him why. It has been the common impression that the subsidy entered into that. How far did that operate to kill off American shipping? Certain elements of American society

will never agree to a subsidy to an American ship. That is the impression that is abroad. How far did that go to destroy it?

Mr. CAMPBELL. Certain foreign governments paid subsidies. Japan paid a subsidy. I believe Great Britain paid a subsidy. I believe that the French paid a bounty. At least, they all of them went into the shipowners' pocket to help pay expenses.

The CHAIRMAN. And Germany?

Mr. CAMPBELL. And Germany.

Mr. EDMONDS. Will you let me answer that when you get through?

Mr. CAMPBELL. James J. Hill built the two largest ships in the world and put them on the Pacific, and they are utter failures. The Pacific Mail built up its fleet to China, and before the war broke out they pulled it off the seas because they could not pay operating expenses; and that fleet had the backing of the Union Pacific Railroad and the Harriman interests. They sold them at "give away" prices, and Mr. Franklin, of the International Mercantile Marine, bought them. The war came along and everything became inflated, and, of course, he made money out of it, just the same as we all made money. I made a Government salary out of the war.

Mr. EDMONDS. Let me answer that question of subsidy for the committee's satisfaction so that we will get it right.

Mr. Campbell has touched on the subject, but I would just like to say this, that England paid a certain amount of subsidy, but she did not pay a subsidy to her cargo ships. She paid a subsidy to her passenger lines. She paid the Suez Canal tolls. She built the Lusitania and the Mauretania. She built up her merchant marine; there is no question about that; but she was probably the only nation on earth that could do what she did without paying a subsidy to her cargo ships.

France paid a building subvention or a bounty and a vessel subvention and the Suez Canal tolls on her eastern lines.

Austria paid a subvention, a bounty, and the canal tolls.

Spain, I believe, was contemplating paying the canal tolls a short time ago.

Germany arranged for preferential railroad rates to all of her ships, cargo ships and everything else. One of the principal commercial strictures between England and Germany was because Germany's rate to Hamburg was $1.42 for certain ocean traffic, whereas the ordinary rate to Hamburg was four dollars and something. Japan pays out about ten million yen a year to the lines on the Pacific.

It is a well-known fact on the Pacific, I learned when I was over there, that Mr. Hill's large boats would not run because they were too big. He could not get cargo for them. I was on the last trip of the boat that Mr. Franklin bought. It was bought during the war, in 1916, I think, or 1915, and Mr. Franklin paid a pretty good price for it. The Southern Pacific Railroad was able to get out of that business and they were glad to do so because they were ordered to do so by the Interstate Commerce Commission.

Mr. THATCHER. If I may make one statement, this section which we have been discussing with reference to the tax does not levy one penny of tax on the shipowner. The only person taxed is the middleman, and if the shipowner chooses to send his insurance abroad, not through the act of the middleman, he does not pay one penny.

Mr. FITZGERALD. Is it practicable to do that?

Mr. THATCHER. Oh, yes.

Mr. FITZGERALD. Is it done?

Mr. THATCHER. Yes; it is done sometimes.

I was going to ask whether Mr. Campbell was arguing for the shipowner or the broker. I was not quite clear.

Mr. CAMPBELL. Your tax is levied to build a wall to shut out competition to the extent of 2½ per cent. If it succeeds in keeping the insurance in the United States no tax will be paid; but the American shipowner will pay an increase of 2½ per cent upon his gross premium. You are taxing the underwriter upon his operating profit. You are taxing the shipowner upon the gross premium paid. That is levied for the sole purpose of keeping that insurance here.

Mr. EDMONDS. No, Mr. Campbell——

Mr. CAMPBELL. Please let me finish my statement.

If the insurance does not stay here and it goes abroad, the broker will pay a tax; but the brokerage business is done under just as severe competition to-day as the underwriting business is. The broker will put that tax either on the shipowner or on the British underwriter. If he puts it on the British underwriter it means that the British underwriter will increase his insurance premium to the shipowner by just the amount of the tax; and the shipowner pays the tax.

So that the effect of that provision of the bill is going to be to increase the cost of marine insurance to the shipowner by 2½ per cent on the gross premium, if the insurance stays here, and if it goes abroad the shipowner is going to pay it because the English insurer can increase his premiums by that 2½ per cent.

Mr. Edmonds speaks about the Pomerene Act. The Pomerene Act permits combinations for export trade for the purpose of developing our foreign trade. How? Through combinations decreasing the cost of the exported article to us, so that we are enabled to sell that exported article cheaper in the foreign market in competition with the cheaper manufactured foreign article. Is not that true? That is the purpose of the Pomerene Act.

The purpose of this act is to levy a tax upon the American shipowner and thereby increase his cost of operation—in what? In carrying on foreign trade.

I do not care whether that 2½ per cent levies a tax of $1 or whether it levies a tax of $2,000 or $100,000. Whatever it fixes, you are taxing the American shipowner in his efforts to develop foreign trade. For what purpose? For the purpose of encouraging these insurance companies, because they say, "We want to make more money than we can by meeting the competition of the world in the American insurance business."

Are you going to pay the shipowner a subsidy? You can not get a bill like that through Congress. Can you give any aid to the American shipowner by which he is going to get his income increased so that he can meet the competition of the world? No, sir. We have got to meet the competition out of our earnings. That is where we get our income to pay these underwriters. It is going to rest on the American shipowner because it is going to increase the cost of the operation of his ships.

If you want to develop your marine insurance business, develop your merchant marine first. These ships that the Shipping Board has——

Mr. FITZGERALD. What ought to be done with them?

Mr. CAMPBELL. I will tell you. They ought to be sold, and they would like to sell them, but you can not give them away. This man is on the right track [indicating Mr Dean]. If the President of the United States will appoint a man of courage he will appoint a man with the same amount of courage that this man has, and he will divorce himself from political influence and he will take these ships and look into their physical condition, because some of them are rottenly constructed. Ask Robbins' Dry Dock how many rivets they take out of these ships when they come in for repairs. If the Shipping Board will create a strong inspection bureau for the purpose of keeping close track of the physical condition of these ships and get them into proper condition, they will perform the first step and they will encourage the development of syndicate A, which is a very desirable institution and will be the greatest thing that the underwriters ever pulled off in the United States——

Mr. THATCHER. And it is operated and has not cost the Government a penny.

Mr. CAMPBELL. The next step will be for the new Shipping Board to forget all these troubles in the past, appoint a responsible claims commission to settle up all these broken contracts and uncompleted contracts and past payments due—and there are thousands of them, as Mr. Dean knows; he has struggled with them for three years—so that it will leave the Shipping Board to look to the future and not constantly to the past. If they then will sit down and examine trade routes and the trade business of this world, if they will call in the American shipowners who have made a success of their own private business on the basis of competition and not go out and cable some man who had influence with the chairman of the Shipping Board, it would eliminate a great deal of the difficulty.

Then they will let those ships out to those people on a bare boat basis whereby the shipowner will be responsible for the upkeep of the vessel, for the operation of the vessel, and he carries insurance on that vessel with his American underwriters so as to increase the great volume of the business of 1,335 ships, instead of carrying a fictitious bookkeeping fund.

If they will reduce the number of those ships to a world-price basis, which is difficult to ascertain to-day; if they will impound in a sinking fund the amounts earned on those vessels to acquire them at a reasonable price or upon some equitable basis, say fifty-fifty, of the earnings between shipowner and the Government; if the Shipping Board will cease all of this interference through its effort to operate from the city of Washington with a bunch of boys 1,335 ships, and the chairman of the Shipping Board and his commissioners will get the best auditors in America to set up a proper accounting system for each one of these shipowners to show what that ship is doing on her voyage; and if they will tie up the ships that they can not make pay operating expenses and run only those that can pay operating expenses, taking the ships away from the shipowners that can not pay expenses and encouraging those that can, they will solve the problem.

Mr. FITZGERALD. Do you think that would put the American flag back on all the seas?

Mr. CAMPBELL. If it can be done, that is the only way it is going to be done. If it can not be done in that way, what are you going to face? You are going to face a situation where you can not make those ships operate and pay expenses. Are you going to lay the ships up, or are you going down into the Public Treasury and subsidize them? Then you are going to encourage the development of marine insurance by taking 1,335 ships and build up this business. This man [Mr. Edmonds] is working along the right line, but that is not what you are going to do with this bill.

Mr. FITZGERALD. If 2½ per cent is prohibitive at this time, could any percentage be sustained?

Mr. CAMPBELL. I do not think so. You could go to the very best people of this country to-day and it is very doubtful whether you are going to make your ships pay even under the best circumstances.

Mr. EDMONDS. You must not blame the underwriters for that tax. We wrote that in ourselves to equalize the tax here with the tax on the other side. If there had been no necessity for it, we would not have put it in at all.

Mr. CAMPBELL. But you are putting it on the American shipowner; you are making him pay for it.

Mr. EDMONDS. But it would be no hardship on the broker to pay it.

Mr. CAMPBELL. You can not put it on the broker. He will not stand it.

Mr. EDMONDS. I saw a suit with regard to one broker in New York who could have paid 2½ per cent on $50,000,000 worth of premiums.

Mr. CAMPBELL. That may be true, but you are not going to put that tax on the broker. The broker will pass it along. He is doing business on a competitive basis. He will pass it to the British underwriter and he will increase his premiums just to that extent, and the American shipowner will pay the bill.

The CHAIRMAN. Before we forget it, can you give us a little light on the difference in cost of foreign seamen and American seamen? It seems to me your little 2½ per cent tax is small as compared with the other. That is the impression I have and I would like to have light on that subject before I would vote for any bill.

Mr. CAMPBELL. Your Shipping Board and your shipowners are fighting vigorously for a reduction of 15 per cent in wages, are they not?

The CHAIRMAN. Yes.

Mr. CAMPBELL. And Admiral Benson has said that he will lay his ships up unless that reduction is made. He says he can not operate his ships. The insurance cost in operating a ship is just about the wage cost. On a fleet, which I am not privileged to name, but which I know, figures given to me by responsible people show that the insurance cost is about 4.9 per cent. The wage cost is about 12.9 per cent. Your 2½ per cent upon your gross premium will amount to just as much as Admiral Benson says he will tie his ships up for unless he gets it. This business is done on close margins.

The CHAIRMAN. Well, is it possible to ascertain the difference in cost of transporting a cargo an equal number of miles by British seamen from Buenos Aires to New York?

Mr. CAMPBELL. Yes; I should say that that could be done. There are many factors that enter into it.

The CHAIRMAN. Well, on the labor question alone?

Mr. CAMPBELL. You can get the difference in the cost of British seamen and American seamen.

The CHAIRMAN. Exactly. There is a difference. Who takes up that difference?

Mr. CAMPBELL. The American shipowners.

The CHAIRMAN. You are talking about competing now on the high seas, in the trades lanes of the world, with the English. How are you going to do it on the labor question? Is not that more important than your insurance even?

Mr. CAMPBELL. It is not more important; it is just as important. But it is grain of sand upon grain of sand that makes the hills. That is one of the hurdles that the American shipowner has to jump. I will give you the difference in cost.

Mr. KUNZ. Can you not tell us the difference in the price of American and foreign labor?

Mr. DEAN. It is pretty nearly two to one.

Mr. CAMPBELL. Here is a statement made by a responsible shipowner, a New York shipowner of the highest standing. It gives the results of a voyage of a typical Shipping Board vessel, which shows that on a round voyage of the steamer *Orinoco*, a 7,500-ton oil-burning vessel, from New York to the River Plate, the gross operating expenses were $10,090, as against $7,794 for a similar British ship. Last week the American Shipowners' Association issued an authentic statement showing that the present monthly wages of the engineers on a representative 8,800-ton freighter totaled $937.50, as against $546.75 for a similar British ship. But that differential adds to the cost of operating an American ship. If you could eliminate that you might take on this; but you are proposing to add something more to it.

The CHAIRMAN. It is your opinion, then, that we could not compete?

Mr. CAMPBELL. My opinion is that it is going to be difficult under the most favorable circumstances to compete. It is very questionable whether you can compete or not anyway; but you can not compete if you keep on adding to the cost of operating, which this bill will certainly do.

The problem is to reduce the operating costs. But this bill is trying to increase the operating costs. Otherwise, there is no object in putting this provision in the bill, because it is designed purposely to make it possible to keep in American markets this insurance from going abroad, and it will not be kept in American markets unless the American underwriter can get a higher premium than the British underwriter gets.

The CHAIRMAN. Do you desire to present more evidence next week, Mr. Campbell?

Mr. CAMPBELL. No; not unless the committee wants some of these men to come down and hear from their own lips what the shipping situation is. I will bring down any number that the committee wants. I have had no suspicion at all that this hearing would go on beyond this time. I will communicate with them to-morrow and see whether they want to come down or not. You can get from them

first-hand information as to what the shipping situation is. But it is so fundamental that it ought not to require argument that you can not build up the American merchant marine by adding to operating cost at the present time; and that is what this bill is endeavoring to do. If it is not, then it is giving the American underwriter the protection he is seeking, because he wants evidently a barrier built here.

Mr. EDMONDS. May I ask Mr. Campbell a question?

The CHAIRMAN. I presume he would be glad to answer one.

Mr. EDMONDS. I see 13 or 14 lines in your association are coastwise lines, protected traffic?

Mr. CAMPBELL. Yes.

Mr. EDMONDS. Of course being such, and having no competition, I presume all of those lines place their insurance with American companies. Being virtually protected by the tariff that we place against them, I presume they all insure in American companies, do they not?

Mr. CAMPBELL. No; they do not.

Mr. EDMONDS. Why not?

Mr. CAMPBELL. I will tell you why they do not do it. I can only speak for one company. For a number of years I was counsel for the Pacific Coast Steamship Co., the largest coastwise line on the Pacific coast. It placed part of its insurance in American markets and part of it abroad. That steamship company, notwithstanding the fact that it was engaged in the coastwise trade, has had the most difficult time to pay its operating cost. Month after month that line has gone into the red. What is becoming of your coastwise business? It is disappearing. Why? Is the service still continuing out of Philadelphia down the coast?

Mr. EDMONDS. We started a new line the other day to Boston and we got it back again.

Mr. CAMPBELL. I can remember when they threatened to take the Clyde Line out of Philadelphia, and the stevedores came over there and volunteered to keep the men on at a reduction in wages in order to keep the line running. Admittedly, the coastwise lines have a protection that the foreign lines have not got. Whether or not they can stand this, I do not know. I am not discussing it from the point of view of the coastwise lines but from the point of view of foreign shipment.

The CHAIRMAN. Mr. Dean, the special assistant to the chairman of the Shipping Board, is present. Mr. Dean, I do not know whether you wish to answer this question or not, but it indicates somewhat what is in the minds of the people. In reestablishing this merchant marine of America and putting the American flag on every sea, is it the idea of the Shipping Board that these vast sums must forever be poured in to maintain the operation of the ships under Government control?

Mr. DEAN. You refer now to what Mr. Campbell has said in regard to the present cost of operation?

The CHAIRMAN. Well, this money that is constantly going in, these appropriations that you are constantly asking for and for which Congressmen who want to see the American flag on the high seas are presumed to vote for. Are we going to pay for it in that way, or have you any idea that it will be self-sustaining in competition with Great Britain without this species of subsidy?

Mr. DEAN. The Shipping Board is charged with the duty of permanently establishing this merchant marine. I was very much interested in what Mr. Campbell said at one stage of his remarks when he pointed out how he believed the problem should be dealt with. The Shipping Board, which at the present time consists of one man, has the bare boat proposition under consideration. There is no market for ships. I mean by that you can not sell these ships. The Shipping Board is charged with the duty of operating these ships until such time as they can be placed in private hands for private operation. In working out the problem it has come to us as we have gone along that certain things are very essential and necessary. This matter of insurance, we believe, is absolutely vital. I want Mr. Campbell to consider the situation which exists tonight. We have a ship in the Orient and the shipper is in the Orient. There is a cargo offered to be brought to this country. The rate is satisfactory. We meet the rate of our competitors. They say, "Very well, I will ship my cargo on the Shipping Board boat." Then they go to get insurance on that cargo, and the insurance agency says, "You are going to ship on an American ship, a Shipping Board boat." He has to go to a British company, by the way, because the British company is there in the field handling this cargo insurance, and he says, "Before I can give you the rate on the shipments of cargo on the American ship I shall have to get in touch with Shanghai or some other point." It will probably be one-eighth higher. The man who wants to ship the cargo says, "How soon can I find out? How soon can I get that rate?" The agent says, "Well, it may be a matter of two or three days," and he goes out and places his cargo on our competitor's ship, just as probably you or I would do under the circumstances. Now, that is the cargo situation. But here is the curious part of it: On the hull the British company is ready to write it to-day for a lower rate than the American company.

By the way, this comes to us through our consuls. This is the sort of information we get through them. The question then comes up, How are you going to deal with that situation? That is not a matter of treaty; it is a matter of business. In other words, our competitors with their insurance established all over the world are there to do business, and, after all, somehow or other they are there to protect their own tonnage, their own ships, and they propose to fight us very hard. It was for that reason that we made up our minds that we would have to have insurance as one of the aids in establishing our merchant marine. It was a matter of two years ago when it first came to our attention. During the war we wrote our own insurance. It was in charge of a very expert and able man, Mr. Chub, who is here to-night. My recollection is that more than a billlon dollars' worth of insurance was written by the Government itself.

With the armistice came the question as to whether or not the Government was going to continue in the insurance business, and investigation developed the fact that a great deal of American money for insurance of American ships went abroad.

The premiums paid and sent out of this country are the invisible assets that make Great Britain to-day, and London to-day, the great commercial center of the world. That meant tremendous strength to her. and when this came to the attention of the chairman of the

Senate committee he said that rather than have that money go abroad the Government would go into the marine insurance business and the money kept here. We said to him, "To-day on the hull risk you can write only a quarter of a million dollars in this country."

Mr. Edmonds read from the statement of Mr. Franklin, who pointed out that he found that only 5 per cent of it could be placed here in this country. And so the subcommittee of the Committee on the Merchant Marine and Fisheries took up the matter. Mr. Edmonds was the man who took the greatest interest in it. He said, "What can be done? We do not want to have the Government go into this insurance business, but we do believe that it is of the greatest value to have American companies have the history of the ship and the inside of our business." That is where we have to keep it. It is information that belongs to us. I do not need to dwell on the advantage that there is in finding out that a certain cargo is being shipped by the International Harvester Co. in an American ship, when it used to go in an English or some other ship. What a tremendous weapon that is in the hands of our competitors? So, Mr. Edmonds got these gentlemen together. He found there were companies with some $400,000,000 of assets. Mr. Campbell was talking about the strength of some of these insurance companies. What we need is more of it rather than less. We have to have companies of tremendous strength. But he got together these companies with their $400,000,000 of assets, and they were not willing to come into this proposition. Most of them thought that the Government would come in and take the business, and if the Government once got started in this marine insurance business where would it stop?

Mr. KUNZ. In reference to 5 per cent of the insurance being placed in American companies, how many American companies are there here?

Mr. DEAN. There are probably 50 substantial American companies.

Mr. KUNZ. They reduced the insurance on account of the condition of the boats or vessels?

Mr. DEAN. I do not think that was the reason.

Mr. KUNZ. Mr. Campbell stated that some of them were rotten; that the risks were too large for them to assume. Was that it?

Mr. DEAN. These companies, scattered as thy were and not working together, were not in a position to carry the line. In the first place, our marine insurance had been grossly neglected in this country. We let it go abroad. These great companies abroad had an advantage in the way that they could do business in this marine situation. All those factors were there and they did not want to write it.

You can see the disadvantage under which these companies were working in regard to a tax. England was covering on her net profits. We were taxing on our gross premium. Of course, you gentlemen see what a total loss, for example, it means on a ship. Suppose you insure a ship for a matter of $2,000,000 and she goes down. That will give you some idea as to the size of your companies and the amount of assets they must have in order to deal with that sort of a proposition.

Now, under this syndicate arrangement you will find that it is spread among these companies in proportion to what they feel they

are justified in carrying. That is, one company may take 1 per cent of the risk, perhaps; another may take 8 per cent of the risk, assuming it was $2,000,000, which is the total they write.

The Shipping Board, as I said in the first place, feels sure that if this is to succeed we have got to have American insurance facilities. It is a long up-hill fight. Dr. Huebner appeared before the insurance commissioners of the different States and went over this proposition, and I have right here an article written by Mr. Mansfield, the commissioner from Connecticut, who is substantially behind this proposition and believes this is a great step in the right direction.

The State of Oregon has already acted and taken this bill. It is one way to clear the way to deal with the situation. But at the present moment, of course, we are not making money out of ships. I do not believe the American operator is. I heard one of the large American operators, one of the most representative of them, practically admit that he was running his ships at a loss. Why was he doing it? He was doing it the same way a railroad service is sometimes run at a loss. It established a service and had to keep it up. But that particular operator had back of him the surplus that he had piled up during the war. He could continue at a loss.

When you talk about what the Shipping Board is doing and the terrible condition they are in to-day, remember that we always made a great deal while the war was on. I pointed out to you that over $500,000,000 was taken in from operations, but under our form of appropriation that was turned into a revolving fund to pay claims and everything.

Mr. KUNZ. What is your financial condition at the present time?

Mr. DEAN. We are practically flat at the present time.

Mr. KUNZ. And in time you will be before Congress asking for appropriations?

Mr. DEAN. We shall have to come up and explain this situation to Congress and inquire how you wish to deal with it. The bill passed the other day by the Appropriations Committee said, "Take your profits." That is the way they have been talking for a year or two. We used to go before Mr. Good's committee, and I remember the head of our operating department saying that we would like to spend such and such a sum, and the committee, without showing any special disturbance over it, would say, "You might spend it for that."

To-day we are not making any money out of our operations. However, it is not quite as black as Mr. Campbell paints it. They are not all on the red side of the ledger.

Mr. KUNZ. Are any of them paying now?

Mr. DEAN. Yes; I think it is confined very largely to our coastwise service. I happened to look into a company the other day that is on the black side. They are making some money on our foreign commerce to-day. On the round trip we are not making money. We have laid up over 600 ships.

You have heard a good deal about these passenger ships that were built at a tremendous expense. By the way, the ships were first designed for Army transports, then changed to Navy transports, then changed to refrigerator ships, and later changed into passenger ships. To-day they are passenger ships. On each of the three ships that have gone across the Pacific our estimates will show that there will be a balance of a little under $100,000 above the cost of operation. I do

not mean that we are making money in the sense of figuring the cost and our investment and all those factors, but I mean that that is a going concern.

Mr. CAMPBELL. Does that include deduction of insurance premium?

Mr. DEAN. It does on one of them, where I saw the statement. Whether it does on the other two or not I could not tell you.

The CHAIRMAN. Do Shipping Board ships pay toll to go through the canal?

Mr. DEAN. I think they do.

The CHAIRMAN. If we relieve them of that, how will that affect the situation?

Mr. DEAN. That would be a great help.

Mr. FITZGERALD. In the light of what Mr. Campbell has said, as much of it as you can concede to be true, is this the time to put in force such a law as this, which will immediately put an extra burden upon the struggling marine?

Mr. DEAN. I think so; decidedly.

Mr. FITZGERALD. In other words, by putting this 2½ per cent tax on we are going to try immediately, or within the next few years, to build up these companies strong enough to handle the marine insurance of the United States?

Mr. DEAN. Yes.

Mr. FITZGERALD. Is this the time to do it in that way?

Mr. DEAN. It is the best way I know of.

Mr. FITZGERALD. Well, is this the time when we are losing money?

Mr. DEAN. Yes; when we are losing money.

The CHAIRMAN. When you have not anything else to do and have the time?

Mr. DEAN. But this is a good time to get everything straightened out and in order and take advantage of the business as it picks up.

The CHAIRMAN. Would you undertake to show how we can make up this difference of the cost of labor on the British ship as compared to the labor on the American ship?

Mr. KUNZ. What is the difference first?

Mr. DEAN. Let me say, first, that in the cost of labor on the British ships as compared to the cost of labor on our ships to-day there is a difference of about 100 per cent. Think of that, gentlemen.

The CHAIRMAN. With that is there a British subsidy?

Mr. DEAN. On the British ship?

The CHAIRMAN. Yes, sir.

Mr. DEAN. Well, there is a mail subsidy.

The CHAIRMAN. Well, that is a subsidy. Now, we have to overcome 100 per cent difference in the cost of labor. How are we going to do it?

Mr. FITZGERALD. This passenger subsidy is always in force, is it not, on the Cunard and other lines?

Mr. DEAN. Yes. The Cunard Line got out a statement the other day—they were selling some debenture bonds and it was a very interesting statement, because the Government said that because the line owed them some five million dollars in bonds, to assist in this bond issue they would practically take second place. It shows where the Government walks in and says, "You have to sell your bonds." They take off mortgage on certain ships. They practically let these

other bonds go ahead because they see the importance of keeping that thing going.

The CHAIRMAN. This war has revealed the fact that both England and Germany have been very free to help their business men in the way of finding markets and helping get their goods there.

Mr. DEAN. Exactly.

The CHAIRMAN. So this is not anything out of the ordinary that has been pursued by those nations in building up their foreign commerce.

Mr. DEAN. No. The most remarkable thing is the history of what England has done with her shipping. You can start with the law of Cromwell, who said nothing should come into England which did not come in in English bottoms. Whenever the time came to help in any way they helped. They stood behind the proposition.

Mr. KUNZ. There is no way to build up the merchant marine of this country unless Congress passes laws such as England did, giving them a subsidy. Is that the way you look at it?

Mr. DEAN. Probably the most important section in the merchant marine act is known as section 28. I say the most important section, certainly the section that has attracted the greatest interest and attention. It was not new. It was something that Germany and Japan had done before. We were taking a leaf out of their books. The section provides, in substance, where goods are shipped in an American ship, in an American bottom, the through rail rate shall apply on those shipments, leaving the local rate to be applied to shipments for both import and export in our competitors' ships. There has been a great deal of objection to that section. The Shipping Board has heard of it from all sections of the country. The duty of the Shipping Board is to certify to the Interstate Commerce Commission when they believe that there is adequate American tonnage to take care of this foreign commerce.

One of the first things that your new board must do is to take that section, canvass the situation, and see the services that we have. We have established over 100 services on some 40 principal trade routes, and one of the questions that we face to-day is how long can you go in maintaining a service that a year ago was very profitable but to-day is losing money for you? That is the business question to face. You have opened up a new trade route. The discriminatory section will be tried. It will be tried because until we try it we will never know whether it is a success or not. I do say this, that perhaps before putting that section into effect we shall have to do as Mr. Campbell has suggested, take account of stock. We shall have to see who the dependable operators are who can handle these ships. We shall have to work out an arrangement with them. We will say that you are going to establish these certain services. The discriminatory section may be put into operation, and then if that does not succeed we are going to maintain this merchant marine if it is a possibility.

We are going to maintain it because I believe that Congress is behind it. They propose to have it maintained. All they want is to have it explained to them so that they believe it is a sound basic way of dealing with the situation. We have learned a lot about operators in the last two years. We have also learned a lot about the men in the organization. This fleet was thrust into our hands.

We had a matter of, say, 2,000,000 tons and a couple of years later we had a matter of 12,000,000 tons. The very operation of the ships, the personnel of the officers, must be considered. When we get a cable that a certain ship is aground near Aden, for instance, we look back and see who is the crew operating the ship and the personnel of the officers. We find that the captain was a man who was a tugboat captain somewhere and was put on a big freight ship to carry her over there. It was one of the incidents that came when we had to find men to go ahead and handle these ships.

The strike that is now going on has shown us that just as we have got to get a loyal feeling toward our ships, the thought on the part of Congress and the people of this country that they are going to see their American ships at sea and that they take a pride in working that out, so we have got to inculcate in the minds of our officers and crews a feeling of responsibility and loyalty toward their flag such as the British officers and crews had. And yet with the changing personnel we have not got it. The captain that has been on the deck of the big German ship for 20 years has a pride in that ship. We have to develop that same sort of thing on our part toward these ships. We have to sift out the men.

All those things are sure to be worked out.

The CHAIRMAN. May I ask you this: Could you tell me how nearly the construction of new tonnage has caught up with that destroyed during the war? Will you have use, in normal times, for this immense tonnage that we now have and the world has?

Mr. DEAN. I believe the world is overbuilt today. That is the view that the Shipping Board has, that under all the circumstances it is overbuilt today.

The CHAIRMAN. You say now that you are dragging the bottom away down, as the gentleman said. I understand that you have a lot of boats that would not be used, and if we were back to normal times you would have more tonnage than you need?

Mr. DEAN. That is true. My recollection is that before the war there were approximately 45,000,000 tons and 52,000,000 tons now.

The CHAIRMAN. It would be rather a gloomy outlook for immediate shipbuilding.

Mr. DEAN. Yes. I want to say this, on the shipbuilding end of it. Here are all these yards in the country. We have got an admirable yard which cost some $15,000,000, one of the best yards in this country, and it is turned back on our hands. We have got to do something with it.

Mr. O'BRIEN. Where is that yard?

Mr. DEAN. The Bristol yard, near Philadelphia. I was trying to interest a man in that yard as a manufacturing plant. We have got to use it that way. We have a good many yards. However, there will be work for the older yards, undoubtedly.

Mr. O'BRIEN. How about the yard at Kearney, N. J., or at Newark?

Mr. DEAN. You do not mean the submarine yard there?

Mr. O'BRIEN. Yes.

Mr. DEAN. They took that back. They took it over. We sold that yard to them.

Mr. FITZGERALD. Mr. Chairman, is a transcript of any part of this hearing to be furnished to the members of the committee, particularly the program laid out for the Shipping Board by Mr. Campbell?

The CHAIRMAN. Every word that has been spoken here to-night will be in these hearings and will be in printed form.

Mr. FITZGERALD. Very well. I wondered whether it would be available.

The CHAIRMAN. Is there anything that anybody wishes to ask Mr. Dean?

(No response.)

The CHAIRMAN. What is your idea now, Mr. Edmonds?

Mr. EDMONDS. There are two or three gentlemen that I would like to have you hear to-night. They want only about five minutes apiece.

STATEMENT OF W. H. LABOYTEAUX, PRESIDENT OF THE FIRM OF JOHNSON & HIGGINS, INSURANCE BROKERS.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Please give the reporter your name, address and business.

Mr. LABOYTEAUX. My name is W. H. Laboyteaux. I am president of Johnson & Higgins. Johnson & Higgins are, unfortunately, perhaps, for them, what has been referred to here a number of times to-night as the insurance broker. We are the sea wolves. All the evils in the marine insurance business are attributable to the marine insurance brokers.

I want to tell you something about what brokers are, what their duties are, and why they do what they do.

Before I do that, however, I want to refer to something that was stated by Mr. Dean when he referred to the instance where a cargo was to be shipped by an American ship to Hongkong and he could not get a rate in foreign insurance companies, or, at least, they wanted a higher rate. That reminded me of the fact that not long ago—I do not remember how many months ago—I received a letter from the United States Shipping Board asking me if I could explain why it was that the insurance companies in New York were discriminating in their insurance rates against the ships of the United States Shipping Board as compared with the rates which they charged private owned ships.

I do not know that they are discriminating. I presume that this inquiry arose through the fact that some of the ships that were submitted were not considered by the underwriters as equal in construction, possibly in management, to the ships that are privately owned.

I only mentioned that instance because it shows that this co-called discrimination by foreign agencies—I do not know who they were; they may have been Chinese agents or English agents—is not standing out by itself. There are other people thinking the same way.

He also referred to the business of the International Mercantile Marine. Our firm was favored with that business. We handled it. The reason the business is not placed, or that a larger proportion of the business is not placed in the American market, is that the companies in America have never been willing to do it—that is, a large number of the companies, not all of them; there have been a few companies—and, I think, really from patriotic motives, they hav

not been willing to write insurance at anything approaching the rate at which insurance was available in the English market.

Mr. KUNZ. Why? Do you know why?

Mr. LABOYTEAUX. I am going to try to tell you that. One of the reasons, I believe, that I think induces that position on their part is the rate. They do not think the rate is adequate. Another is that they like the cargo business. It is the more profitable end of the business, and where they can get their full capacity with cargo they prefer the cargo. If they take the hull lines it reduces their capacity for cargo.

As I started out by saying, brokers seem to be considered as outcasts. Why, I do not know. I think it is because we are not understood.

As brokers we act as the servant of the assured. We prefer, and do use, the American market when we can get it at the same rate that we can get insurance in the foreign markets. We do that because it is less expensive to us to handle the business in the American market, because our responsibility is less both to the assured and to the insurance companies, if we handle it in the American market; because our remuneration is exactly the same whether we place it in England or whether we place it in America; because we are friends and neighbors and we would rather do business with the people we know than with people we do not know. Why do we use the foreign market? There is one reason and one reason only. We only use it when it is more economical to our clients, and only when the rates in the American market are higher than are available in the foreign market. As we see it, it is our duty.

What is going to be accomplished by the tax on the foreign insurance that is proposed to be put on the broker? The object of that tax is to prevent American insurance from going abroad. If the American companies will keep insurance as cheap as foreign insurance it will remain here. But the American companies will not always do that, so they propose to levy a tax which will make it possible to keep it here. If the tax has that effect it means that the insurance will be purchased here and no tax will be paid. The shipowner will, however, have to pay a larger premium out of his pocket. If, however, the tax is paid by the broker or the foreign insurer, then the insurance will go abroad and the purpose of the tax to keep the insurance in this country will fail.

The tax would thus become a mere revenue measure paid by the broker or the foreign insurer, but surely ultimately by the assured.

The CHAIRMAN. Are there any statements you would like to file for the information of the committee?

Mr. LABOYTEAUX. I have only a few moments more.

The CHAIRMAN. It is rather late and these statements will have to be largely digested through the agency of the printed hearings.

Mr. LABOYTEAUX. Here are just a few notes that I made this afternoon.

Mr. Huebner has mentioned here that marine insurance is used as a competitive weapon in giving away trade secrets.

In over 30 years I have never heard a merchant or shipowner complain or even mention that such a condition existed; nor from my knowledge of how the business is transacted do I see how such a condition could exist or how in any event the merchant and ship-

owners are the ones who could be hurt if such conditions should exist.

Mr. Campbell has talked a little here about the competitive situation. Until about a year ago, 1920, there were two big competitive markets available for American insurance. One was the English market and the other was the local market. In 1920 the State of New York enacted an amendment to what they know as section 45 which had the practical effect of stopping the large English companies who do business in New York from writing insurance on American property through their local office.

Previous to that time they had been freely writing through London entirely irrespective of their local offices. The object of that legislation, I understand, was to increase the amounts which they would write through their local office. It did not have that effect. The practical result of that legislation has been to take from under the American insurer this big English market which amounted to just about one-half. That left the smaller market there of a number of companies with a capacity of somewhere between a million and a quarter and a million and a half on a first-class tramp hull.

The American companies, with the cooperation of Mr. Edmonds and the committee, have formed themselves into a syndicate. The purpose of that syndicate is to increase the capacity of the market and the effect of the syndicate is to place in the hands of the underwriters in America the fixing of rates and conditions under which they will write the marine insurance for American property owners.

There is no way of fixing marine rates, no scheduled way of fixing them. The rates are fixed by the judgment of the individual underwriters and by that only. They, of course, form their judgment on what they consider to be their experience in the particular trade, that particular ownership, that particular class of vessels, and they make the rate what they think is a profitable rate.

The gentlemen who comprise this committee who fix the rate are all very high class, honorable men. We have no complaint to make in that direction whatever; but I contend that it is not human nature to expect any bunch of men having the control of an essential commodity, such as insurance is, to make the same rates that they would make if there were competition. Competition is the only way that the rates are kept down.

Mr. Edmonds has referred to the fact that we have competition of the English market. On the other hand, he complains because the brokers send the business to the English market. If you put the American merchant and the American shipowner in the position where he has got to go to a certain group of men and say, "I want insurance," and they say, "We will give you insurance on such and such a condition," even if the condition is right, even if the condition is fair, considering the business, it is a perfectly human thing to say, "I want something to show me that it is fair. I want to be sure that there is something beyond the man we will have to buy that insurance from to indicate to me that the rate that you are charging is not unfair."

The purpose of this syndicate is to increase the profit, or, if I may put it this way, to put American merchant marine insurance on a profitable basis. If it was on a profitable basis before this syndicate was formed, what is the necessity for the syndicate? If it was not

on a profitable basis, if the rates they were getting were not sufficient, then it must mean that the costs are going up.

This gentleman has referred to the question of standard forms. There is a number of forms which I presume would be called standard forms. That is, the printed portion of the policy is identical and is generally accepted as the form of insurance to be used in respect to the printed portion, but there are a great many things that enter into the making of rates and the costs of insurance that do not appear in that form. One of the principal things is the insured value.

Marine insurance is not like fire insurance. If you have a policy for $100,000 on a boat valued at $1,000,000, even though there be no other insurance, the marine insurance in case of a loss pays one-tenth of the loss. When you start to make rates you have got to consider values. The companies will make a rate on a vessel valued in the policy at $125 a ton, quite different from what they would make you a rate for on a vessel valued at $75 a ton. In fact, the difference in the rate would be approximately one-fourth per cent.

Mr. FITZGERALD. The higher the value of the hull the more economical the insurance?

Mr. LABOYTEAUX. No; the higher the value of the hull the more expensive the insurance. That seems funny, but it is a fact, nevertheless.

Mr. FITZGERALD. It sounds like an incentive to dishonesty.

Mr. LABOYTEAUX. Be that as it may, that is the condition. If you have a 10,000 dead-weight ton boat valued at $150 a ton, that is $1,500,000. On a boat engaged in the general cargo service the rate would be probably somewhere in the neighborhood of 5½ per cent. If you calculate that rate on a million and a half, that would be about $82,500. If the boats were valued at $1,000,000, at five and a half it would only cost you $55,000.

Mr. FITZGERALD. You are talking about actual values now?

Mr. LABOYTEAUX. No; I am talking about insured values and agreed values that go into the policy.

The fixing of values is a very important item in the cost of insurance. For instance, I place insurance on a fleet of ships on which the rate in America and the rate in England are identical, but the insurance in America costs the owners about 32 per cent more than the insurance in England. It is the fixing of those things that creates this situation where the shipowners do not feel that the absolute control of marine insurance in the United States should be put into the hands of any group of men, no matter how high-minded they may be.

Mr. FITZGERALD. Take a 9,000-ton ship; $60 a ton is a fair rate, we will say——

Mr. LABOYTEAUX. But that is not the rate you can get.

Mr. FITZGERALD. Let us say it is, for this purpose.

Mr. LABOYTEAUX. All right.

Mr. FITZGERALD. What does the insurance amount to? What is the premium?

Mr. LABOYTEAUX. On ordinary ships, $60 a ton?

Mr. FITZGERALD. Yes.

Mr. LABOYTEAUX. My guess would be about 9 per cent. At $125 a ton it would probably be 5½ per cent.

Mr. KUNZ. That would be how much higher than the foreign rate?

Mr. LABOYTEAUX. I have one or two instances where the foreign rate is——

Mr. KUNZ. No; an instance like this.

Mr. LABOYTEAUX. The foreign market is not always less than the American market. Sometimes the foreign market and the American market are equal. Sometimes the American market is a little lower than the foreign market. Sometimes the American market is a little higher than the foreign market. There is no fixed thing about it, because the judgment of men differs on those things. It is a matter of judgment.

Mr. FITZGERALD. What does the agent's commission and his discount amount to? Suppose a premium of insurance be $2,160. I have been figuring here. I was taking a 9,000-ton ship, $60 a ton, $540,000. Four per cent, $21,600. Taking 5 per cent for the agent's commission and 10 per cent for his premium gave me $3,240.

Mr. LABOYTEAUX. I was going to come to that, and I will take it up right away.

Mr. O'BRIEN. Do you insure the cargo and the ship as one item, or are they separated?

Mr. LABOYTEAUX. A ship is insured on time, by the year. By one group of underwriters the cargo is insured as it is shipped by the shippers.

Mr. O'BRIEN. Every trip?

Mr. LABOYTEAUX. Every trip. They may have open policies under which they operate, but premiums are paid for each trip. There are a few of what we call annual cargo policies in the coastwise trade where insurance is placed on an annual basis, but the great bulk is placed by trips.

Mr. O'BRIEN. If the *Aquitania* were insured in New York, would that be for a year?

Mr. LABOYTEAUX. Yes, sir; for one year.

Mr. KUNZ. And the cargo would be insured by the shipper?

Mr. LABOYTEAUX. For the voyage.

Mr. KUNZ. Not by the shipowner?

Mr. LABOYTEAUX. Not by the shipowner; no.

Mr. O'BRIEN. If it were worth $1,000,000, what would be the insurance for the year?

Mr. LABOYTEAUX. On the *Aquitania*?

Mr. O'BRIEN. Yes. Say it was worth $1,000,000.

Mr. LABOYTEAUX. I could hardly tell you about that, based on the value of a $1,000,000, because she is valued at about $9,000,000.

The CHAIRMAN. $9,000,000, then.

Mr. LABOYTEAUX. Two and a half per cent.

The CHAIRMAN. For a year?

Mr. LABOYTEAUX. Yes, sir.

Mr. KUNZ. In a foreign company?

Mr. LABOYTEAUX. The *Aquitania* is an English boat.

The gentleman has asked me a question about the agent's discount or the agent's brokerage, etc.

Mr. KUNZ. That is a passenger boat, is it not?

Mr. LABOYTEAUX. Oh, yes.

Mr. KUNZ. The rate would be higher than it would be on a cargo boat?

Mr. LABOYTEAUX. Oh, no. The rate on the *Aquitania* is probably as low a rate as prevails. The ordinary rates on the *Aquitania* I think are 2½ per cent. The rate ranges probably from 2½ per cent on. On old obsolete types of boats I have seen rates as high as 20 per cent.

Mr. KUNZ. The rate would be fixed on account of the condition and quality of the boat?

Mr. LABOYTEAUX. Certainly; and the management.

Mr. KUNZ. Bad management would make a higher rate?

Mr. LABOYTEAUX. Surely.

Mr. KUNZ. A bad boat would increase the rate?

Mr. LABOYTEAUX. Surely. Now, may I answer your inquiry? You have asked me about the commissions. The commissions that are payable on hull business in England are 10 per cent and 5 per cent. That is the equivalent of 14½ per cent. The English broker gets 2½ per cent. The balance of the brokerage and the commission is deducted. I am speaking, now, of about fully 95 per cent of our business on hulls. I do not want this conflicted with cargoes. They are given credit for the full balance of the commission. We charge a commission of 5 per cent to the assured for handling the business. On cargo insurance in America the same commissions are usually allowed. In some cases I believe the syndicates have—if I am incorrect I wish you would correct me—in the syndicate B, I think the commission is only 5 per cent. Syndicate A, 10 and 5. We follow exactly the same principle in connection with marine insurance. We give the assured the benefit of the full discount and commission and charge him 5 per cent for our services.

On cargo insurance the English rate is 10 and 5. On the cargo insurance, under our arrangement—I do not know what other brokers are doing—the English brokers absorb 5 per cent. We deduct 10 and charge our assured 10 per cent for handling, because it is a more expensive business to handle than the hull insurance, as it comes in small weights.

Mr. EDMONDS. You say the English charge you 2½ per cent for handling it?

Mr. LABOYTEAUX. The English broker.

Mr. EDMONDS. Then you get your 10 and 5?

Mr. LABOYTEAUX. On the hulls, you mean?

Mr. EDMUNDS. Yes.

Mr. LABOYTEAUX. Twelve, we get.

Mr. EDMONDS. And it is really 14½. In this country you get 10 and 5?

Mr. LABOYTEAUX. Fourteen and one-half.

Mr. EDMONDS. You get 14½ value here, but you only get 12 per cent?

Mr. LABOYTEAUX. That is why we do not go to England unless we have to go there.

Mr. FITZGERALD. I want to lead up to this proposition. The brokerage, we will say, according to these figures that I was running down, taking the basis of a 9,000-ton ship, is $60 a ton, 4 per cent rate, agent's commission of 5 and 10 per cent discount, making about $3,240. It might be possibly a few dollars more. The 2½ per cent tax on the same premium, based on the same method of calculation,

would amount to only $540. The brokerage and expense of this insurance is $3,240 as compared with a tax of $540.

Mr. LABOYTEAUX. No.

Mr. FITZGERALD. What we are trying to get at is how oppressive this 2½ per cent is going to be as compared with other items and other things that enter into it.

Mr. LABOYTEAUX. I am not a ship operator. I do not know anything about the expense of other things, except what I am told; but if you take a fleet—and there are a great many fleets that pay from three hundred to five hundred or even a million or more dollars in premiums per year—and you put 2½ per cent on that it is going to mean, if it is $1,000,000, $25,000. If it is $2,000,000 it is going to mean $50,000, and so on.

The statement has been made here that the American insurers, the American owners, have the privilege of going to England direct for their insurance. There is no question but that is a true statement; but if the English owner goes direct to England for his insurance, in the first place, he is not going to get the benefit of the advice of the insurance people that he trusts in arranging his insurance.

In the second place, if he sends his insurance to England, the American market will not get the benefit of that business which they now get through that business. There may be a few isolated instances, but the general run of brokers offer the business to the American market at the best rates. They would be fools if they did not.

Mr. EDMONDS. Who pays the 3 per cent stamp tax?

Mr. LABOYTEAUX. The stamp tax? The English underwriters have absorbed the 3 per cent stamp tax which is now imposed on most of the fleets. If the business is attractive to them they will absorb it. Of course, it has got to be paid just the same as any other costs by the shipowner, because if the business does not become profitable they are going to raise the premiums. In cases where the business is not particularly attractive they will sometimes say, "We will not pay the tax," and the owner has to pay it.

Mr. EDMONDS. Does the company make the practice of giving 10 per cent discount to the customer?

Mr. LABOYTEAUX. I would not say that we always do it because I think possibly there may be a small exception once in a while, but our general plan is to allow the deduction of all the commissions and charge 5 per cent; and at least 90 per cent of our whole business is handled on that basis.

Mr. FITZGERALD. This matter is narrowed right down to one or two points.

The CHAIRMAN. Those are the 2½ per cent and what else?

Mr. FITZGERALD. This other form of policy, which probably has not very much weight on account of the fact that that is already the law.

Mr. EDMONDS. Will you just give Mr. Chub a minute, Mr. Chairman.

STATEMENT BY MR. HENDON CHUB.

Mr. CHUB. There are just one or two points I want to make. The question was asked particularly as to how important the 2½ per cent is, and Mr. Leboyteaux testified as to how he assessed the brokerage.

Just put those two things alongside of each other. Mr. Leboyteaux says he gives back discount to the assured and he charges 5 per cent for his services. He does that for his American business where he does all the work, and he charges 5 per cent on the foreign business where the foreign broker does all the work. But his services are so sacred that the 2½ per cent extra that is deducted on this English business is of no consequence if it is paid for the services of a competent broker.

The first objection to this bill is the question of combination, which I do not think the gentlemen that advocate that believe in it. We know that there is not a single competing market in the world, with the exception of this where the combination of companies is not the source of the rate. In England there is a hull agreement. England can get enough profit out of its vessels so it can afford to write some of our boats a little below cost. The poor broker who is placing a big lot of English vessels with an English company on a tariff basis, on a basis controlled by the hull committee, is able to tack on 30 or 40 American boats and say, "You can have them at this price." The Norwegians have a tariff. Those are self-helping nations. They both have tariffs. We have had nothing to prevent our having a tariff over here. Personally, I do not care about this being put in the bill, except that it reassures some people who would not work with you heretofore because they said, "We do not know where the law stands." I do. I think it is a proper thing to put in, because it removes doubt. I do not believe we are doing anything we should not do, and Mr. Edmonds does not.

As to the 2½ per cent tax. For 30 years I have been doing marine underwriting business in America. During all that time I have competed with the foreign markets on my own business at a disadvantage of not less than 3½ per cent taxation, and on the whole I have managed somehow or other to scramble along and meet the rates. If you do not have this 2½ per cent you are going to say to the foreign company, "You go on with no tax as against American business with some tax."

When I was connected with the Government, there was a proposition of 10 per cent on exporting business, and I said I thought it was unfair. I said, "If you make your tax 3 per cent, it will equalize what we have." I believe in an equalizing tax; I do not believe in a protecting wall; but I do not think we should be at a disadvantage as against our foreign competitors, and I think this puts us on an equality with our foreign competitors.

Mr. Leboyteaux referred to section 45 and what it did. It said to a foreign company doing business over here, "You can not have two ways of getting American business. You can not take some of it through an American agent and pay a tax and make the rest at your head office and not pay any tax." It said to the same company, "You can not do both." That seems to me to be pretty fair. I think this bill is pretty fair. I do not think they take any stock in this combination at all. I do not believe that 2½ per cent is more than an equalizing tax for the other disabilities. It is short sighted not to have the American companies on the same basis as the foreign competitor. It is short sighted to put them at a disadvantage.

Mr. FITZGERALD. It is a matter of relative importance. Can this marine insurance act get along and we make this matter grow and

prosper without this tax? If we put it on, are we going to cripple the independent merchant marine? Or would it be better to sit on the fence and reduce that somewhat? How important is the tax? How much of a tendency is there to cripple the merchant marine?

Mr. CHUB. I think as a matter of equity we should have the tax. I do not put all the weight on the 2½ per cent tax that some of the gentlemen who have testified here to-day do. But as a matter of equity we should not be at a disadvantage on our own business.

Mr. CAMPBELL. You admit that it is increasing the cost to the American shipowner?

Mr. CHUB. My purpose is to see that the American company gets a square deal, and I do not ask for any protective wall, and there is nothing in this bill that creates it.

Mr. CAMPBELL. You believe the American shipowner can compete with the foreign shipowner?

Mr. CHUB. Yes; but I do not think he can do it unless he is given equality.

The CHAIRMAN. Are you a broker, Mr. Chub?

Mr. CHUB. No; I am an underwriter.

Mr. FITZGERALD. But you recognize the fact that the building up of a merchant marine is more important than the building up of an insurance business?

Mr. CHUB. I will go further and say this, I will agree with Mr. Campbell that it is of more importance to the marine insurance interests that we should have a merchant marine than any small matter. It is a big matter. I do not think there is any member of the profession—I think I may call it a profession—that does not think the merchant marine is more important to the insurance than the insurance is to the merchant marine.

The CHAIRMAN. The cargo going through the Panama Canal would vary in tonnage. What do they charge for that cargo?

Mr. CHUB. They charge so much on the dollar insured. For instance, a ton of silk would pay premium on the basis of the value of the silk, and a ton of coal would pay premium on the basis of the value of the coal.

The CHAIRMAN. We are talking about building up this merchant marine. That is another feature of it. You pay much attention to this little 2½ per cent and do not pay any attention to the 100 per cent difference in the cost of labor and the repeal of the tolls through the Panama Canal. That would have more to do with the building up of a merchant marine in America than the other by a long shot.

Mr. CHUB. I think the other could be disregarded, the matter that I have been discussing. The effect that this 2½ per cent equalizing tax—for I call it that— would have on our merchant marine, I think, is absolutely inconsiderable.

Mr. KUNZ. This bill would have no effect on the District of Columbia. What you are aiming at is to have the States adopt the bill that would be passed by Congress?

Mr. CHUB. I am aiming at this, that we have 48 kinds of regulation as against competitors that have no regulation. If we start with you gentlemen as a national authority, we will have some chance of having uniformity.

The CHAIRMAN. Before we adjourn, let us assure you, gentlemen, how much we appreciate all the information you can give the committee, and how delighted we would be to have you come again.

STATEMENT SUBMITTED BY MR. W. H. LABOYTEAUX, NEW YORK, N. Y.

I am an insurance broker.

We act as the servants of the assured (merchants and shipowners) in buying insurance for them.

We buy in whatever market is best for our clients.

We prefer to use the American market. Our reasons for this preference are: (1) Because it is less expensive to do so; (2) because our responsibility is less, both to the assured and to the insurance companies; (3) because our remuneration is exactly the same no matter which market is used; (4) because the companies here are our friends and neighbors and we rather do business with them than with people we do not personally know.

Why, then, do we use the foreign market?

There is one reason, and one reason only. We use it only when it is more economical to our clients. When the American market's costs are higher than are those available in the foreign markets, we conceive it to be our duty to purchase where we can purchase the insurance at the lowest cost to our principals.

Mr. Huebner has mentioned (*a*) that marine insurance is used as a competitive weapon in international trade and has been used by other countries in preempting leading lines of trade; (*b*) that marine insurance companies acquire vital trade secrets exceedingly useful to the nations they represent, and become thoroughly conversant with business secrets through marine insurance placed with them.

In over 30 years, actively engaged in the marine insurance business, I have never heard a merchant or shipowner complain or even mention that such a condition existed. Nor from my knowledge of how the business is transacted do I see how such a condition could exist. In any event, the merchants and shipowners are the ones who would be hurt, and I think they would not use the foreign markets if such a condition should develop.

The marine insurance market in the United States is at the present time noncompetitive in respect to hull insurance.

With the support of the Congressional Committee on the Merchant Marine and Fisheries and the United States Shipping Board, the marine insurance companies in the United States have syndicated their capacity for hull insurance. Two syndicates have been formed: Syndicate B, consisting of American companies to insure only vessels sold by the United States Shipping Board on the partial payment plan; and Syndicate C, consisting of American companies and the United States agencies of foreign companies, to insure vessels of private ownership.

The capacity of the market outside the syndicate is negligible and of no value for purposes of competition. The rates to be charged on private-owned vessels are fixed by a committee of underwriters, members of the syndicate.

No competition therefore exists in the American market; nor, under present conditions, is there any effective competition to be had from the English market. This for the reason that, at the 1920 session of the Legislature of the State of New York, section 45, chapter 33 of the Insurance Laws of New York, for 1909, was so amended as to require insurance companies of foreign countries licensed to do business in New York.

"(*a*) To report to the insurance department of New York all insurances accepted by the company on American property, or for American assured, through offices outside the United States,

"(*b*) To pay taxes thereon and hold reserves thereon."

As a direct result of this amendment to the insurance laws of New York, all of the English companies having agencies or United States branches in New York have discontinued the acceptance of any further insurance on American property through their head offices. The companies thus eliminated for American insurance are the old-line English companies, whose policies are unquestionable security. Heretofore such companies have offered the best outside market for American insurance, both in the matter of cost and in the liberality of their settlement of losses. In consequence of their decision not to accept American insurance, the capacity of the English market for such insurance has been reduced by at least one-half and is now not sufficient in capacity to provide effective competition on marine risks of ordinary size and value.

Marine insurance rates are determined by the judgement of the individual underwriter as to the worth of the particular risk offered. No scientific basis for the determination of marine rates (such, for instance, as schedules used in the determination of rates for fire insurance) has ever been effective; nor does the determination of marine rates on a schedule basis seem practicable.

Is this situation, where the marine insurance companies in the United States have, through the syndicating of their capacity, eliminated all competition, and where, through insurance laws, the foreign market has been so restricted as not to offer effec-

tive competition on American business, a sound one or one calculated to assist in the upbuilding of the American merchant marine and the American foreign trade?

The United States Shipping Board and the Subcommittee on the Merchant Marine and Fisheries have urged the support and upbuilding of American companies in the national interests. That the American companies should have the support of the American merchant and the American shipowner, all will agree. Is it wise, however, and is it in the interests of American commerce, or of the marine insurance companies themselves, to create what will closely approach a monopoly in American marine insurance?

The only safeguard against excessive marine insurance rates is through competition. On this point, Mr. Benjamin Rush, president of the Insurance Company of North America, the olderst American marine insurance company, stated at a hearing before the committee:

"Therefore all American marine insurance is obliged to compete with the insurance market of the world. I think, I want to say right here, that it is just and proper that it should do so, because if it did not do it, if there was a protective tariff erected around American insurance companies—supposing it was possible to do such a thing, which I doubt, but suppose it was possible—it might result in the insurance rates for American merchants being higher than the insurance rates for the merchants of England, France, Germany, or any foreign country. That would be greatly to the detriment of American commerce, and I, as an American insurance man, no matter if it would put money in my pocket, have no desire to see that thing come about." (Hearing before subcommittee, Pt. IV, p. 162.)

In discussing the international character of marine insurance and the necessity for any avoidance of restrictive legislation which would prevent American commerce and American shipping from having the full benefit of the world's competition on marine insurance, the report of the Subcommittee on the Merchant Marine and Fisheries contains the following comment (p. 62):

"American companies are thus subjest to competition with the insurance markets of the world. In the absence of such competition it might easily result that insurance rates for American merchants and vessel owners would be higher than those obtained by their foreign competitors, thus handicapping American commerce. This fact should never be lost sight of, and indicates the inadvisability of arbitrarily restricting insurance to American companies or of subjecting rate making to approval of a governmental board."

This finding of the committee indicates the conclusion reached by them that any such restrictive measures as will be accomplished by this bill now under discussion would be unsound and unwise and to the detriment of American commerce and American shipping.

American foreign commerce and American shipping are admittedly the vitally important factors to the country's prosperity. Marine insurance is of importance only to the extent it is helpful to commerce and shipping or that its absence would adversely affect these interests. Its function is purely that of service to trade and transportation. Without commerce and shipping marine insurance can not thrive. Therefore in any legislation affecting marine insurance it is essential not only to the welfare of American commerce and shipping, but also to the future of American marine insurance that the interests of commerce and shipping be safeguarded.

The bill before you is opposed for the following reasons:

First. Section 20 will have the effect of repealing all State antitrust laws in respect to marine insurance and will specifically permit marine insurance companies to organize for concerted action for the purpose of (*a*) the formulation, adoption, or enforcement of policy forms and conditions; (*b*) the recommendation, approval, or making of rates of premium.

This section therefore specifically permits combinations in restraint of competition in marine insurance, or, in other words, sanctions by law the creation of a monopoly in marine insurance.

Second. Sections 24, 25, and 26 are manifestly intended to impose obstruction to the free use of the foreign insurance markets by American merchants and shipowners and by taxation to increase the cost to the American merchant and ship owner of any insurance placed by him in the foreign market.

The tax is nominally placed upon the broker, but its object is to prevent American insurance from going abroad. As I stated before, it only goes abroad now because it is cheaper abroad. If American companies will sell insurance as cheap as the foreign companies it will remain here, but the American companies will not do so. To keep it here, it is proposed to levy a tax which will make it as costly abroad as here. If the tax has that effect, it means the insurance will be purchased here and no tax will be paid. The ship owner will, however, have to pay the larger premium out of his

pocket. If, however, the tax is paid by the broker or the foreign insurer, then the insurance will go abroad and the purpose of the tax—to keep the insurance in this country—will fail. The tax under such conditions would become a mere revenue measure, payable by the broker or foreign insurer, but surely ultimately by the shipowner. Unless the Government gives the tax to the American insurance companies—which they won't—there can be no possible benefit to the marine insurer, except by giving them the opportunity to charge higher rates, which will fall upon the shipowner. If this tax accomplishes the purpose for which it is designed, the American merchant and the American shipowner can not possibly escape the burden of it.

UNITED STATES SHIPPING BOARD,
Washington, May 11, 1921.

Hon. BENJAMIN K. FOCHT,
Chairman House Committee on the District of Columbia,
377 House Office Building, Washington, D. C.

DEAR SIR: In his testimony on Friday evening, May 6, Mr. Ira Campbell quoted extensively from my report, pages 10–11, on Legislative Obstructions to the Development of Marine Insurance in the United States, with a view to showing that my own report, issued in support of H. R. 175, is in reality a strong argument in favor of the situation he was contending for in his testimony before the committee. It is always dangerous to quote merely one section of a large report. I maintain that my report must be viewed as a whole; and if this is done, the conclusions are not at all in accord with Mr. Campbell's contentions. This would have been clear if Mr. Campbell had only added the paragraph immediately following the section he quoted. This reads as follows:

"At present the American cost is admittedly higher than that of British companies, our leading competitors. A large share of this adverse cost differential is attributable to natural business reasons, such as the advantages resulting from a well organized world market of long development, a broader spread of business and broader reinsurance facilities, a close union with banking and shipping interests, and a lower cost of operation due to the somewhat lower foreign standard of salaries and office expenses. But a very substantial share of the unfavorable cost differential is due to artificial and needless barriers of our own making. Reference is made to the legislative obstructions enumerated in the preceding section, and which will be discussed in detail in later chapters. There can be no doubt that the greater freedom of British companies to cooperate for concerted action, their privilege to write many kinds of insurance under a single management, and their smaller tax burden, all help to give them larger business opportunities, a smaller overhead charge, and, in consequence of these, greater competitive power. Underwriters appearing before the committee differed considerably in their estimates of the extent to which existing disadvantageous factors increased the cost of operation of American companies, but all agreed that there was a material adverse differential. The president of one large company testified that he figured the difference in overhead charges between an English and American company to be between 3 and 4 per cent of the premiums in normal times, and that 'this is almost a complete profit because the statistics of my company for nearly 40 years showed, including the interest on our known investment, our profit on underwriting would average a little over 5 per cent a year.'

"As matters now stand, British underwriters have a natural cost differential in their favor. What folly, therefore, to aggravate the difficulties of our companies by a lot of needless legislative burdens.

"Since cost is the vital phase of the problem, owing to the international and highly competitive character of marine insurance, it should be our determined purpose to eliminate the existing adverse cost differential, and not to encourage the exportation of insurance to nonadmitted foreign underwriters."

If possible I should be pleased to have you incorporate this letter in the record. Otherwise I am afraid the statement quoted from my report might be sadly misinterpreted.

Very truly, yours,

S. S. HUEBNER,
Expert in Insurance to the Committee on the Merchant Marine and the United States Shipping Board.

(Thereupon, at 12 o'clock midnight, the committee adjourned to meet at the call of the chairman.)

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